

# HAMILTON COUNTY TENNESSEE

**Comprehensive Annual Financial Report**  
*for year ended June 30, 2005*



enterprise  south



The background of the report cover features a photograph of a large, modern water wall sculpture. The sculpture consists of a wide, shallow basin of water with a textured, blue-tinted surface. Behind the water wall is a concrete wall with the 'enterprise south' logo and name. To the right of the water wall, a tall, narrow concrete pillar rises, topped with four large, glossy spheres: two blue and two red, arranged in a vertical line. The background shows a line of trees with autumn foliage in shades of orange and yellow, set against a clear blue sky.





**Comprehensive Annual Financial Report • HAMILTON COUNTY • Tennessee**  
*for the year ended June 30, 2005*

*prepared by the Finance Division*  
**Louis S. Wright, Administrator**  
**Albert C. Kiser, Assistant Administrator**



## **Introductory Section**

- one Letter from Claude Ramsey
- two Board of Commissioners
- three Finance Administrator's Letter of Transmittal
- eleven Certificate of Achievement for Excellence in Financial Reporting
- twelve General Government Officials and Organization Chart

## **Financial Section**

- i Report of Independent Certified Public Accountants
- iii Management's Discussion and Analysis

### **Basic Financial Statements**

#### **Government-Wide Financial Statements**

- 1 Statement of Net Assets
- 2 Statement of Activities

#### **Fund Financial Statements**

##### **Governmental Fund Financial Statements**

- 4 Balance Sheet
- 6 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
- 7 Statement of Revenues, Expenditures, and Changes In Fund Balances
- 9 Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities
- 10 Budgetary Comparison Statement – General Fund
- 11 Budgetary Comparison Statement – Sheriff Fund

##### **Proprietary Fund Financial Statements**

- 12 Statement of Net Assets
- 13 Statement of Revenues, Expenses and Changes in Fund Net Assets
- 14 Statement of Cash Flows

##### **Fiduciary Fund Financial Statements**

- 15 Statement of Fiduciary Net Assets
- 16 Statement of Changes in Fiduciary Net Assets

##### **Component Units Financial Statements**

- 17 Statement of Net Assets
- 18 Statement of Activities
- 20 Notes to Basic Financial Statements

## **Required Supplementary Information Other Than Management's Discussion And Analysis**

- 47 Schedules of Required Supplementary Information – Public Employee Retirement Systems
  - Schedule of Funding Progress
  - Schedule of Employer Contributions
- 49 Notes to Schedule of Required Supplementary Information – Public Employee Retirement Systems

## **Other Supplementary Information**

- 50 Budgetary Comparison Schedule – General Fund Detail

### **Combining Financial Statements**

- 55 Combining Balance Sheet – Nonmajor Governmental Funds
- 57 Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds
- 59 Combining Balance Sheet – Constitutional Officers Nonmajor Governmental Funds
- 61 Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Constitutional Officers Nonmajor Governmental Funds
- 63 Combining Statement of Changes in Assets and Liabilities – Constitutional Officers Agency Funds

### **Budgetary Comparison Schedules**

- 66 Constitutional Officers Nonmajor Governmental Funds
- 67 Debt Service Fund

**Discretely Presented Component Unit – Board of Education**

68	Combining Balance Sheet – Board of Education Governmental Funds
69	Reconciliation of the Balance Sheet of Board of Education Governmental Funds to the Statement of Net Assets
70	Combining Statement of Revenues, Expenditures, and Changes In Fund Balances – Board of Education Governmental Funds
71	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Board of Education Governmental Funds to the Statement of Activities
72	Budgetary Comparison Schedule – Board of Education Governmental Funds
74	Statement of Net Assets – Board of Education Internal Service Fund
75	Statement of Revenues, Expenses and Changes in Fund Net Assets – Board of Education Internal Service Fund
76	Statement of Cash Flows – Board of Education Internal Service Fund

**Financial Schedules**

77	Schedule of Property Taxes Receivable
78	Schedule of Certificates of Deposit by Fund
79	Schedule of Investments by Fund
82	Schedule of Bonds, Certificates and Notes Payable, and Other Debt
94	Debt Service Requirements to Maturity

**Statistical Section**

96	Table I	Revenues by Source
98	Table II	Expenditures by Function
100	Table III	Property Tax Levies and Collections
102	Table IV	Assessed and Estimated Actual Value of Taxable Property
104	Table V	Property Tax Rates – All Overlapping Governments
105	Table VI	Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita
107	Table VII	Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures
108	Table VIII	Computation of Legal Debt Margin
109	Table IX	Schedule of Direct and Overlapping Debt
110	Table X	Total Bonded Debt and Net Direct Debt Ratios
112	Table XI	Debt Trend
113	Table XII	Estimated Actual Value Per Capita
114	Table XIII	Property Value and Construction
116	Table XIV	Principal Taxpayers
117	Table XV	Local Sales Tax
118	Table XVI	Hotel-Motel Occupancy Privilege Tax
119	Table XVII	Demographic Statistics
120	Table XVIII	Schedule of Insurance in Force
122	Table XIX	Miscellaneous Statistical Data
124	Table XX	Salaries and Surety Bonds of Principal Officials

**Single Audit Section**

125	Schedule of Expenditures of Federal and State Awards
130	Notes to Schedule of Expenditures of Federal and State Awards
131	Report of Independent Certified Public Accountants on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing standards
133	Report of Independent Certified Public Accountants on Compliance with Requirements Applicable to each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A – 133
135	Schedule of Findings and Questioned Costs
137	Schedule of Prior Audit Findings





HAMILTON COUNTY  
OFFICE OF THE COUNTY MAYOR  
208 Courthouse  
Chattanooga, Tennessee 37402

December 5, 2005

To the Board of County Commissioners and Citizens of Hamilton County

This report outlines our strategic plan for providing services to the citizens of Hamilton County. As County Mayor, I am responsible for ensuring that tax dollars are used as efficiently as possible to protect health and welfare and improve the quality of life for all who live, work or play in this community.

As I move toward my fourth term in office, I continue to focus my efforts toward strengthening economic development and improving our public education system. I believe that these two aspects of our society will determine our future. With Enterprise South listed as one of the top new megasites in the nation, I feel confident that we will bring in industries that will provide top paying jobs.

Fostering the success of high tech businesses right here at home is another focus we're taking through our CEG program – the Center for Entrepreneurial Growth. From inception to mass marketing, the CEG provides assistance to help fledgling businesses grow and succeed. In addition to business recruitment, I am working with local educational institutions and the Chamber of Commerce toward workforce development to ensure that our students are trained and prepared to perform the skills necessary to hold good jobs.

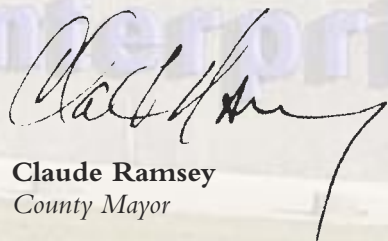
A heightened awareness about the importance of a quality public education continues in our community. Several recommendations from the 2003 Education Summit will be launched this year including the Reading Initiative. "Read 20" is a comprehensive plan to promote reading to children of all ages, beginning at birth. Countless studies show that reading early and reading often are the keys to learning. This program will not only promote this message but will also help make books readily available to everyone. A strategic plan designed to enlist the efforts of all businesses, churches, and citizens will be unveiled later this year.

Obesity continues to threaten the health of a great number of our citizens. The county's Step ONE program is now focusing its efforts on many of the contributing factors to obesity – namely vending machines, restaurants, and grocery stores. Step ONE's strategy is to encourage people to move more and eat more nutritiously. Promoting the importance of eating fruits and vegetables and making exercise a part of our daily activities are the keys to this program.

My most recent undertaking is Hamilton SHINES. This initiative is attempting to discourage public littering through education and enforcement of litter laws. The program does not focus on cleanup or recycling but focuses on changing behaviors. Through mass media ad campaigns, school programs, and community support, I know that we can encourage our citizens to be more conscientious about littering.

I am excited about what is happening in our community and I'm hopeful for our future. I hope you will work with me to make Hamilton County a great place to live.

Sincerely,



**Claude Ramsey**  
County Mayor





## **BOARD OF COMMISSIONERS** *for fiscal year ending June 30, 2005*



Curtis D. Adams  
*Commissioner*



Bill Hullander  
*Commissioner*



Richard Casavant  
*Commissioner*



Lou Miller  
*Commissioner*



William R. Cotton Jr.  
*Commissioner*



Fred Skillern  
*Chairman*



Gregory Beck  
*Commissioner*



Charlotte Vandergriff  
*Commissioner*



Larry L. Henry  
*Chairman, Pro Tempore*





HAMILTON COUNTY, TENNESSEE

**LOUIS S. WRIGHT**

*Administrator of Finance*

December 5, 2005

### **TO THE CITIZENS, COUNTY MAYOR AND COUNTY BOARD OF COMMISSIONERS**

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of Hamilton County, Tennessee for the fiscal year ended June 30, 2005. This report was prepared in accordance with generally accepted accounting principles (GAAP) by the Finance Division of Hamilton County. Responsibility for both the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material aspects. It is presented in a manner designed to fairly set forth the financial activity of the various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

This report is prepared under the accounting model for governments as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Using this approach, the reader can view program costs compared to program revenues for the government as a whole.

The CAFR is organized into four sections: the Introductory Section, the Financial Section, the Statistical Section and the Single Audit Section. The Introductory Section contains a Table of Contents, Letter of Transmittal, Certificate of Achievement for Excellence in Financial Reporting for the 2004 Comprehensive Annual Financial Report, list of the elected officials and organization chart. The Financial Section includes the Independent Accountant's Report, Management's Discussion and Analysis, and Basic Financial Statements with Notes that provide an overview of the County's financial position and operating results. The Combining Statements, for nonmajor funds and other schedules, provide detailed information relative to the Basic Financial Statements. The Statistical Section

provides selected financial, economic and demographic information, which may be used to indicate trends for comparative fiscal periods. The Single Audit Section includes information related to the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non-profit Organizations*.

The State of Tennessee requires an annual audit of the County's financial records. An independent firm of certified public accountants, Henderson, Hutcherson & McCullough, PLLC has audited the County's financial statements in accordance with this requirement. The independent firm is responsible to the County Board of Commissioners and is under contract to the State Comptroller of the Treasury. The independent auditor concluded, based upon the audit, that the County's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP and thus rendered an unqualified opinion. The report of independent accountants is presented in the financial section of this report.

This report contains the traditional County funds, the Constitutional Officers of the County and the County's discretely presented component units: the Hamilton County Board of Education, the Hamilton County "911" Emergency Communication District, and the Water and Wastewater Treatment Authority. These agencies are included based on criteria established by GASB.

GAAP requires that management provide a narrative introduction, overview and analysis in the form of Management's Discussion and Analysis (MD&A) to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found beginning on page iii of the Financial Section.





# PROFILE OF HAMILTON COUNTY, TENNESSEE

Hamilton County is located in the southeast region of the State of Tennessee with the City of Chattanooga as its largest city. It is approximately 120 miles southwest of Knoxville, Tennessee, 360 miles east of Memphis, Tennessee, and 120 miles southeast of Nashville, Tennessee, which is the State capital.

The County was incorporated on October 25, 1819, by the Tennessee State Legislature. It operates under a County Commission/County Mayor form of government. The County Mayor, the chief fiscal officer of the County, is elected at large to a four-year term as are the Sheriff, Criminal Court Clerk, Juvenile Court Clerk, Register of Deeds, Clerk of Circuit Court, County Clerk, Juvenile Court Judge, Assessor of Property and Trustee. The District Attorney General, District Public Defender and all Hamilton County judges are elected at large for eight-year terms. The County's nine-member Board of Commissioners is elected by districts to four-year terms. The Board of Education, a component unit, is comprised of a nine-member board that is elected by districts to four-year terms that are staggered so no more than five are elected in an election year.

The County provides its citizens a range of services that includes, but is not limited to, police, ambulance, sanitation and solid waste, health and social services, culture and recreation, highways and streets, planning, courts, jails and general administrative services. Other services are provided by organizations which have their own board of directors and include Water and Wastewater Treatment Authority, Hamilton County "911" Emergency Communication District and Hamilton County Board of Education.

Even though the Hamilton County Board of Education is a separate entity from Hamilton County, it constitutes a major portion of the funding requirement for the County. With a school system of 6,623 employees and a student population of 39,443, the Board of Education operating budget for fiscal year 2005 was \$304,537,091. Hamilton County financed 48.68 percent, or \$148,257,430, of this operating budget through local property taxes, sales tax collections and use of fund balance. State and federal appropriations and grants provided \$142,187,874, charges for services provided \$10,843,650 and miscellaneous items provided \$3,248,137.

## FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

## LOCAL ECONOMIC OUTLOOK

In a period of economic uncertainty, Hamilton County remains strong and healthy. Unemployment remains below the state and national averages with more new jobs on the horizon. Continued development of the riverfront and downtown is a positive mark for the local economy, as well as the aggressive development and promotion of the newest industrial site, Enterprise South.

Hamilton County's year-end fund balances continue to remain healthy. Our strong reserves allow us to manage any unexpected shortfalls in revenues.

### *Ten year analysis of the growth in fund balance (expressed in thousands)*

	General Fund	Special Revenue Funds	Debt Service Fund
1996	21,664	5,436	14,066
1997	21,819	5,543	17,862
1998	23,436	3,531	17,342
1999	43,654	3,217	619
2000	45,938	11,623	1,438
2001	57,536	7,286	2,725
2002	55,315	8,897*	1,685
2003	53,605	9,251*	832
2004	52,619	8,338*	1,277
2005	49,714	6,709*	1,343

\* Prior years do not include Children's Service and Economic Crimes



## MANAGEMENT'S GOALS AND OBJECTIVES

Management's goals and objectives are to continue to provide infrastructure for future growth and sound fiscal management of county resources while maintaining the quality of life enjoyed here in Hamilton County. Examples of these goals and objectives are as follows:

### SCHOOLS

Hamilton County has embarked on an aggressive capital plan to build new schools and to bring many older schools into the twenty-first century. Since 1996, Hamilton County has provided funding for the completion of eleven new schools (one with private funding) and major renovation of eleven existing structures for a total cost of over \$141 million.

### RIVERWALK

The Tennessee Riverpark is a series of individual parks joined by a trail that extends some thirteen miles from downtown Chattanooga to the Chickamauga Dam. Hamilton County joined with the City of Chattanooga and the RiverCity Company in developing this world-class facility. Over the period of 1986 to 2005, \$57 million in public and private funds were used for design and construction. The Riverpark has received national media recognition and designation as one of sixty "Great American Places." It has been honored with awards from organizations including the American Institute of Architects, American Society of Landscape Architects, National Association of Counties and American Planning Association.

### ENTERPRISE SOUTH INDUSTRIAL PARK

The Enterprise South Industrial Park is becoming a premier industrial site with potential for an enormous impact on the region's economy. In May 2005, it was certified by the Tennessee Valley Authority as Tennessee's first industrial megasite

suitable for major automotive manufacturing. The total funding required to develop the site is estimated at \$20 million. The project has received \$1.5 million in EDA assistance for initial infrastructure development of two hundred acres of the site. With the purchase of approximately 20 miles of the existing rail system throughout the property, the site is now 1,900 acres. Hamilton County and the City of Chattanooga have each pledged an equal amount of support. Flour Global Locations Services has been retained to assist development and identify target markets including manufacturers of medical components, automobiles and automotive parts. A \$23 million interchange is under construction on Interstate 75 to provide direct interstate access to the industrial park. Other roadways within the park will also be constructed to facilitate access. The interstate interchange is expected to be completed by end of 2006.

In April 2005, 2,800 passive acres were deeded to the City and County through the federal government's Lands to Parks Program to be used as a nature park. Deemed too hilly for development, the nature park will include a system of trails for walking, hiking, cycling and horseback riding. The nature park will be one of the largest parks in the State of Tennessee.

### CAPITAL OUTLAY

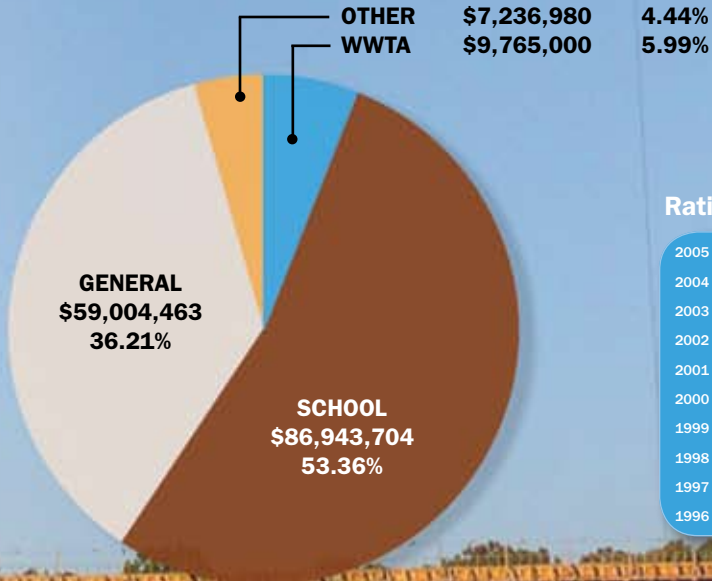
Expenditures for items such as computers, vehicles, minor renovations and furniture are funded each year in the County's annual operating budget. This allows minor capital expenditures to be funded from current available funds instead of bond issues.

### FUND BALANCE

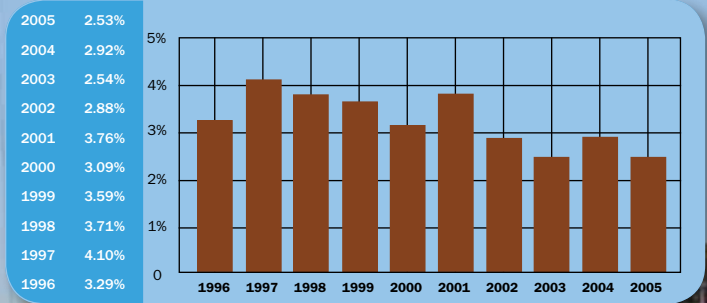
The County has consistently maintained a reserve in the General Fund equivalent to at least three month's expenditures and will continue to do so.



# **HAMILTON COUNTY TOTAL DEBT AS OF JUNE 30, 2005 \$162,950,147**



**Ratio of Net Bonded Debt to Assessed Value**



**RATIO OF NET GENERAL BONDED DEBT  
TO ASSESSED VALUE AND NET BONDED DEBT  
PER CAPITA  
HAMILTON COUNTY, TENNESSEE**

Fiscal Year Ended June 30	Gross Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1996	132,160,000	3.29%	399.47
1997	170,235,000	4.10%	515.12
1998	171,730,000	3.71%	521.58
1999	155,070,000	3.59%	523.92
2000	137,955,000	3.09%	462.77
2001	175,085,000	3.76%	556.72
2002	155,675,000	2.88%	498.83
2003	139,070,000	2.54%	446.22
2004	162,040,000	2.92%	517.09
2005	143,380,000	2.53%	457.59

**NOTE:** Gross bonded debt includes all long-term general obligation bonds and Certificates of Participation and excludes notes payable.

In 1999, the debt service tax levy was moved into the General Fund to better comply with Federal Arbitrage regulations.







The background of the page is a photograph of a park. In the foreground, there is a stone wall and a metal railing. Behind the wall, there are several trees and a clear blue sky. The overall scene is bright and sunny.

# FINANCIAL INFORMATION

## **ACCOUNTING SYSTEM AND INTERNAL CONTROL**

The County's accounting system is organized on a "fund" basis. Each fund or account group is a distinct self-balancing accounting entity. The County's day-to-day accounting records are maintained on a cash basis. For financial reporting purposes, the accounting records are converted to the modified and full accrual basis for all applicable funds. On the modified accrual basis, revenues are recognized when measurable and available, and expenditures are recognized when goods or services are received. On the accrual basis, revenues are recognized when earned; expenses are recognized when incurred. Additional information concerning the various funds utilized by Hamilton County can be found in Note A.

In developing the County's accounting system, much consideration was given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In conjunction with the system of internal control, Hamilton County has an independent internal audit department, which reviews operations as a service to management. This internal audit division is independent of the executive branch.

## **BUDGET CONTROLS**

The Board of Commissioners adopted the 2005 annual budget for the County in July 2004. A formal budget is employed as a management control device. The budgets are prepared on a basis consistent with GAAP except that encumbrances are treated as budgeted expenditures when the commitment to purchase has occurred. All unencumbered and unexpended appropriations lapse at year-end. The level at which expenditures may not legally exceed appropriations is the division level.

Constitutional officers, departments and agencies requesting funding by the Board of Commissioners must submit their budget requests during May of each year at public hearings. The County Mayor submits a proposed budget to the Board of Commissioners for their approval prior to June 30. After the budget is formally adopted, any changes within a division that do not require additional resources must be approved by the County Mayor; the Commission must approve all other changes. Budget to actual comparisons are presented in this CAFR for each individual fund for which an annual budget has been adopted. For the General Fund and the major governmental funds, these comparisons are included in the basic financial statement section. The nonmajor special revenue and debt service funds budget to actual comparisons are included in the combining and individual statements and schedules section of this report. Hamilton County follows the laws of Tennessee regarding the control, adoption and amendment of the budget during each fiscal year. Hamilton County's budget practices not only comply with all state statutes but are more stringent due to our formal budget policy.

## **CASH MANAGEMENT POLICIES AND PRACTICES**

The County pools its cash in order to maximize earnings. Idle monies are invested, with the earnings allocated daily based on each fund's current equity in the pool. Certain capital project funds do not pool their cash with general government but maintain separate investment accounts for arbitrage purposes.

During fiscal year 2005, the County's cash resources were primarily invested in SunTrust Bank. The County did not invest in any derivatives or similar debt and investment instruments. The interest rates received by the County for the fiscal year ranged from 2.43 percent to 3.02 percent and yielded \$3,024,794 of interest income.

The Hamilton County Board of Commissioners has adopted an investment policy, which sets as its goal the maximizing of investment earnings, while at the same time protecting the security of the principle and maintaining liquidity to meet the cash requirements. The policy sets forth the allowable types of investments as well as the individuals responsible for making those investments. The policy also calls for a quarterly report, which is provided to the County Mayor, the County Board of Commissioners, and the County Auditor.

Associated with any investment activity, there is a risk that a governmental entity will be unable to fully realize its investments. Based on this risk, GASB has taken the position that a governmental entity should disclose information concerning its investments and deposits that will enable its constituents to better assess the associated risks. This information for Hamilton County has been provided based on criteria established by GASB as described in Note C to the Financial Statements.

## **RISK MANAGEMENT**

The Hamilton County Financial Management Department administers the County's risk management program, which includes the self-funded insurance program (on-the-job injuries, auto and general liability) and commercial insurance program (property and boiler/machinery, other related policies) in order to protect the assets of Hamilton County.

The department is responsible for administering the claims associated with the self-funded program and does so utilizing a third-party claims administrator. The County has a Safety Program which is an integral part of this process and consists of an Executive Safety Committee and departmental safety committees, bolstered by regular staff training on a variety of topics as well as facility inspections.

In addition, the Risk Management Officer provides consultations on a variety of topics related to the various risks that divisions/departments face in their daily service delivery. To further minimize the County's exposure, the *Insurance Recommendations and Requirements Manual* is utilized for the various contracts and agreements of the County. Through the utilization of external resources, Financial Management also maintains an accurate and up-to-date property schedule for insurance purposes and obtains an annual actuarial review and evaluation to ensure adequate funding is maintained for the self-funded program.

## **GROUP INSURANCE**

Each full-time employee is eligible for group medical and life insurance on the first of the month following thirty days of employment. The County offers a PPO (Preferred Provider Organization) which is fully insured with BlueCross BlueShield of Tennessee. The County also provides \$20,000 of group term life insurance and \$20,000 of accidental death & dismemberment insurance at no cost to each full-time employee.

## **PENSION TRUST FUNDS**

The vast majority of employees participate in the State of Tennessee Consolidated Retirement System (TCRS). The remaining employees participate in three very small County-administered plans. More detailed information concerning these plans can be found in Note I.

TCRS is an agent multiple-employer defined benefit pension plan, and publicly available financial reports can be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230.

# AWARDS AND ACKNOWLEDGEMENTS

## AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hamilton County, Tennessee for its Comprehensive Annual Financial Report for the year ended June 30, 2004. Hamilton County has received this award for twenty-four consecutive years.

### Certificate of Achievement for Excellence in Financial Reporting

Presented to

Hamilton County,  
Tennessee

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy D. Ziehl*  
President

*Jeffrey R. Egan*  
Executive Director

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are currently submitting it to GFOA to determine its eligibility for another certificate.

In addition, the County received the GFOA's Popular Annual Financial Report Award for the reporting period ending June 30, 2004. This is the seventh consecutive year that the County has won this award. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, the County must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

GFOA also presented a Distinguished Budget Presentation Award to the County for its Comprehensive Annual Budget Report (CABR) for the fiscal year beginning July 1, 2004. This is the third consecutive year Hamilton County received this award for the CABR. In order to be awarded a Distinguished Budget Presentation Award, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Budget Report, which must conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements. Like the Certificate of Achievement for Financial Reporting, this award is valid for a period of one year only. We believe our CABR for the fiscal year beginning July 1, 2005 continues to conform to program requirements, and we have submitted it to GFOA to determine its eligibility for another award.

## ACKNOWLEDGEMENTS

I would like to thank the entire staff of the Finance Division, the County Auditor's Office and the independent auditors for their cooperation and dedication in the timely preparation of this report. I would also like to express my gratitude for the support we have received from the County Mayor and the County Board of Commissioners in conducting the financial operations of the County in a sound and progressive manner.

Respectfully submitted,

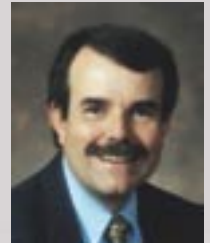
*Louis S. Wright*

**Louis S. Wright**

Administrator of Finance



**LOUIS S. WRIGHT**  
Administrator of Finance



**ALBERT C. KISER**  
Assistant Administrator  
of Finance





# HAMILTON COUNTY GENERAL GOVERNMENT OFFICIALS

(as of June 30, 2005)

Claude T. Ramsey, *County Mayor*  
Jeannine Alday, *Chief of Staff*  
Rebecca Hunter, *Director of Human Resources*  
Onnie Spears, *Director of Equal Employment Opportunity*  
Dan Saieed, *Director of Development*

**Board of Commissioners**  
Curtis D. Adams  
Richard Casavant  
William R. Cotton Jr.  
Gregory Beck  
Larry L. Henry, *Chairman, Pro Tempore*  
Bill Hullander  
Lou Miller  
Fred Skillern, *Chairman*  
Charlotte Vandergriff

**Legislative**  
Debbie Gaines, *Administrator*

**Constitutional Officers**  
S. Lee Akers, *Clerk & Master*  
Suzanne Bailey, *Juvenile Court Judge*  
Bill Bennett, *Assessor of Property*  
Bill Cox, *District Attorney*  
John Cupp, *Sheriff*  
Ardena Garth, *District Public Defender*

**Constitutional Officers — continued**  
Pam Hurst, *Register of Deeds*  
Bud Knowles, *Registrar-at-Large Election Commission*  
Dr. Frank King, *Medical Examiner*  
William F. Knowles, *County Clerk*  
Paula Thompson, *Circuit Court Clerk*  
Carl E. Levi, *Trustee*  
Ron Swafford, *Juvenile Court Clerk*  
Gwen Tidwell, *Criminal Court Clerk*

**Division & Department Heads**  
**AUDITING**  
Bill W. McGriff, *County Auditor*  
  
**FINANCE**  
Louis S. Wright, *Administrator*  
Albert C. Kiser, *Assistant Administrator of Finance*  
T. Kenneth Blankenship, *Director of Purchasing and Contract Management*  
Brian D. Turner, *Director of Information Technology Services and Director of Geographical Information Systems*  
Katherine K. Walker, *Director of Accounting*

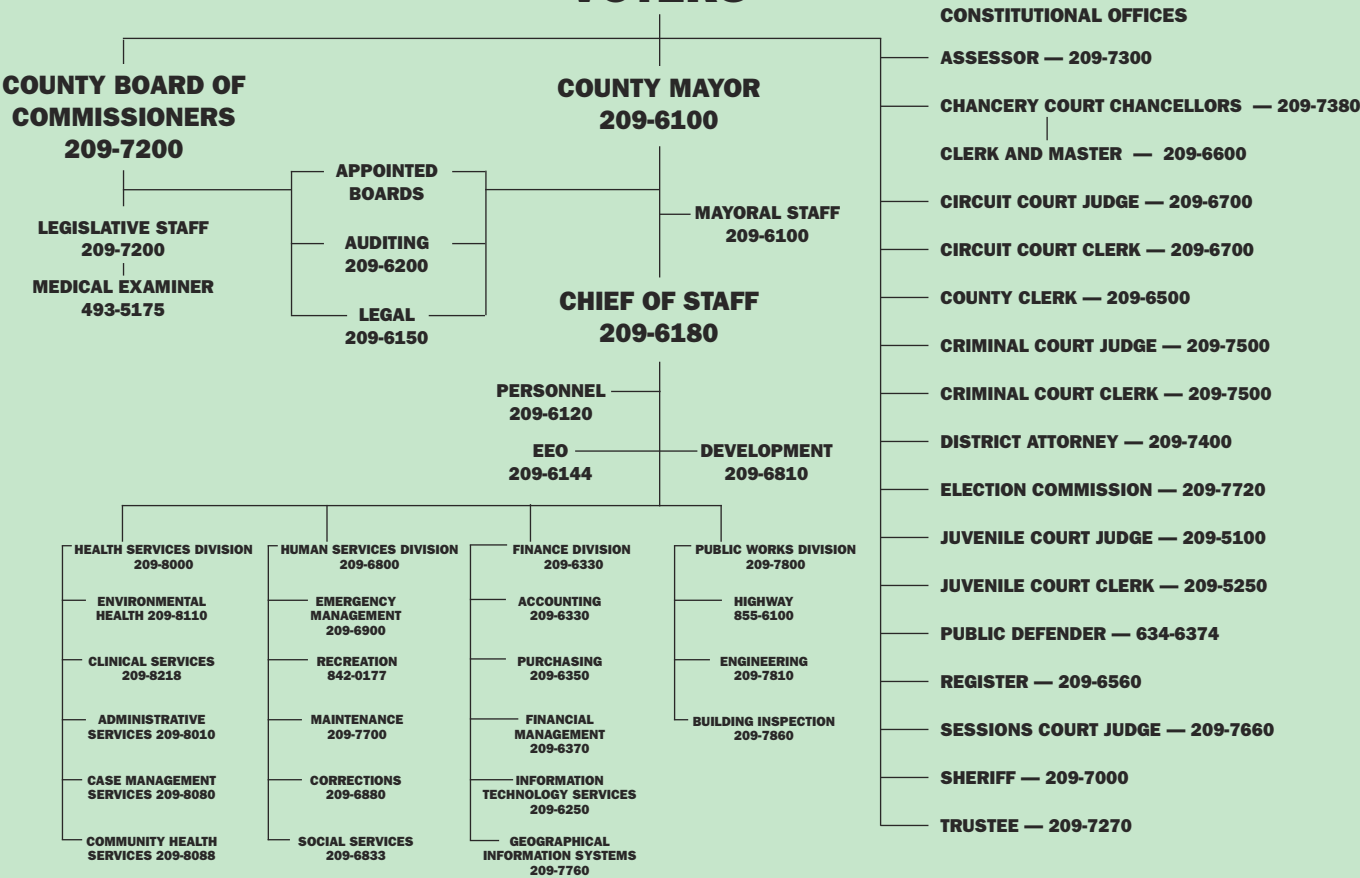
**Division & Department Heads — continued**  
**HEALTH SERVICES**  
Becky Barnes, *Administrator*  
Tammy M. Burke, *Director of Clinical Services*  
Kaye Greer, *Director of Case Management Services*  
Jim Parks, *Director of Environmental Health*  
Marti Smith, *Director of Administrative Services*  
Bill Ulmer, *Director of Community Health Services*

**HUMAN SERVICES**  
Scott Schoolfield, *Administrator*  
Don Allen, *Director of Emergency Services*  
Judi Byrd, *Director of Social Services*  
Worth Lillard, *Director of Maintenance*  
Barbara Payne, *Director of Corrections*  
Ron Priddy, *Director of Recreation*

**LEGAL**  
Rheubin M. Taylor, *County Attorney*

**PUBLIC WORKS**  
Dan Wade, *Administrator*  
Harold Austin, *Director of Highway Department*  
Mike Howard, *County Engineer, Director of Engineering*  
Pat Payne, *Director of Building Inspection*

## VOTERS













Report of Independent Certified Public Accountants  
on Financial Statements, Supplementary Information, and  
Schedule of Expenditures of Federal and State Awards

To the Honorable Mayor and the  
Board of Commissioners  
Hamilton County, Tennessee

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee, and the component unit financial statements of the Hamilton County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hamilton County, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hamilton County "911" Emergency Communications District, which represent 5 percent and 3 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hamilton County "911" Emergency Communications District in the discretely presented component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hamilton County, Tennessee, and the component unit financial statements of the Hamilton County Board of Education as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and the sheriff fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2005, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages iii-xiii of the Financial Section and the required supplementary information on pages 47-49 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hamilton County, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund, combining and individual fund financial statements of the Board of Education (a discretely presented component unit), financial schedules, and statistical tables are presented for purposes of additional analysis and are also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the debt service fund, combining and individual fund financial statements of the Board of Education (a discretely presented component unit), financial schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Chattanooga, Tennessee  
November 22, 2005

*Henderson Hutcherson*  
*for McCullough, PLLC*



# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The discussion and analysis of Hamilton County's financial performance provides an overall review of the County's financial activities for the year ended June 30, 2005. It is designed to:

- (a) assist the reader in focusing on significant financial issues,
- (b) provide an overview of the County's financial activities,
- (c) identify changes in the County's financial position,
- (d) identify any material deviations from the original financial plan, and
- (e) identify individual fund issues or concerns.

This discussion and analysis is an integral part of the financial statements as a whole.

## FINANCIAL HIGHLIGHTS

- The government-wide assets of Hamilton County at the close of fiscal year 2005 were \$445,537,866
- Revenues for governmental funds increased \$5,371,120 or 3.0 percent over last year
- Expenditures for governmental funds increased \$2,448,453 or 1.2 percent over last year
- Capital project expenditures were \$27,746,378 with \$9,424,380 spent for education
- Total bonded debt at June 30, 2005 for the County was \$162,950,147, of which \$86,943,704 was for the Hamilton County Board of Education for capital improvements

## OVERVIEW OF THE FINANCIAL STATEMENTS

The County's basic financial statements contain three components:

- (1) government-wide financial statements,
- (2) fund financial statements, and
- (3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements. Management's Discussion and Analysis provides a comparative analysis of the County's financial position.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

In the government-wide financial statements, the Statement of Net Assets and Statement of Activities provide the reader with a broad overview of the County's financial position.

The Statement of Net Assets combines and consolidates all the County's current financial resources with capital assets and long-term obligations. The end result is net assets, which are segregated into three components:

- (1) investment in capital assets, net of related debt,
- (2) restricted net assets, and
- (3) unrestricted net assets.

Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Hamilton County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during fiscal year 2005. Program revenues, which directly offset costs of specific functions, are allocated to those functions, resulting in the net expenses for governmental activities. General revenues, such as taxes, fines and interest earnings, offset the remaining costs resulting in the annual increase or decrease in net assets. This statement is intended to summarize the user's analysis of the net cost of various governmental services that are supported by general revenues.

Governmental activities include general government, public safety, highways and streets, health, social services, and culture and recreation. Currently, Hamilton County has no business-type activities. In addition, the government-wide financial statements include the following legally separate component units: the Hamilton County Board of Education, the Water and Wastewater Treatment Authority, and Hamilton County "911" Emergency Communication.

The government-wide financial statements can be found on pages 1 to 3 of this report.

# FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

## GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a multitude of individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the major funds, which include the General, Sheriff, Debt Service and Capital Projects funds. Data from the other governmental funds, Constitutional Officers, Governmental Law Library, Hotel/Motel, Nursing Home, Children's Services and Economic Crimes, is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual budget for the General and Debt Service funds and certain Special Revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate budgetary compliance. The basic governmental fund financial statements can be found on pages 4 to 11 of this report.

## PROPRIETARY FUNDS

There are two types of proprietary funds – enterprise funds and internal service funds. An internal service fund is the only type of proprietary fund the County maintains. An internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses that fund to account for its self-insurance and risk management programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.





Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Individual fund data for the Internal Service fund is provided on pages 12 to 14 of this report.

## **FIDUCIARY FUNDS**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is similar to proprietary funds. The basic fiduciary fund financial statements can be found on pages 15 to 16 of this report.

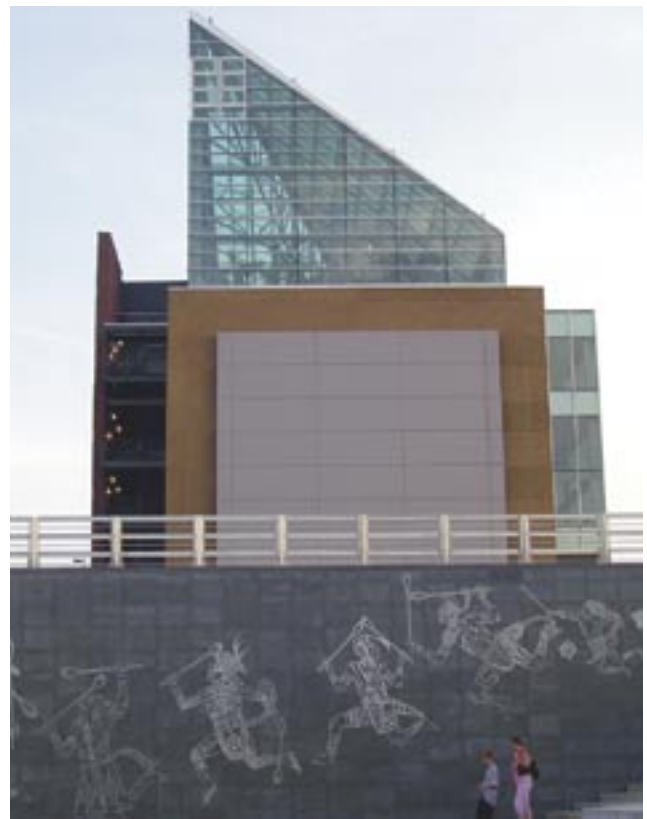
## **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 to 46 of this report.

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents required and other supplementary information. Required supplementary information includes the funding progress and employer contributions for the Public Employee Retirement Systems. Other supplementary information includes detailed budgetary information for the General Fund, combining statements for the nonmajor governmental funds, combining statement of changes in assets

and liabilities for the Constitutional Officers Agency Funds, combining statements for the Hamilton County Board of Education and various financial and statistical tables. Combining and individual fund schedules can be found on pages 55 to 76; the various financial and statistical tables can be found on pages 77 to 124.



# GOVERNMENT-WIDE FINANCIAL ANALYSIS

## HAMILTON COUNTY, TENNESSEE NET ASSETS

		Governmental Activities
	2005	2004
Current and Other Assets	\$ 227,262,151	\$ 235,670,839
Capital Assets	218,275,715	230,387,416
<b>TOTAL ASSETS</b>	<b>445,537,866</b>	<b>466,058,255</b>
Long-term Liabilities	177,022,417	195,371,357
Other Liabilities	97,293,923	89,383,972
<b>TOTAL LIABILITIES</b>	<b>274,316,340</b>	<b>284,755,329</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	196,706,802	164,113,307
Restricted	34,178,104	48,182,826
Unrestricted	(59,663,380)	(30,993,207)
<b>TOTAL NET ASSETS</b>	<b>\$ 171,221,526</b>	<b>\$ 181,302,926</b>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$171,221,526 at the close of the fiscal year ended June 30, 2005.

Net assets are comprised of three elements:

(1) Investment in capital assets (e.g., land, buildings, infrastructures and equipment), less any related outstanding debt;

(2) Restricted assets held for future capital improvements, debt repayment and other restrictions as prescribed by law; and

(3) Unrestricted assets. The long-term liabilities of \$177,022,417 include \$86,943,704 of debt for assets contributed to the Hamilton County Board of Education, a component unit, which results in negative unrestricted net assets.





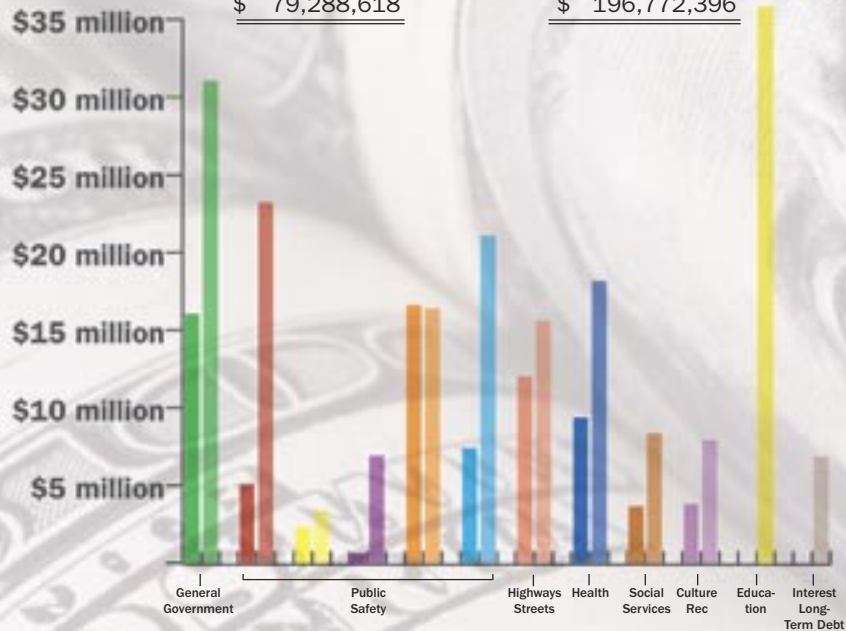
## HAMILTON COUNTY, TENNESSEE CHANGES IN NET ASSETS

	Governmental Activities	
	2005	2004
REVENUES		
Program Revenues		
Charges for Services	\$ 46,616,348	\$ 42,947,394
Operating Grants and Contributions	22,965,548	24,226,919
Capital Grants and Contributions	9,706,722	7,659,577
Total Program Revenues	79,288,618	74,833,890
General Revenues		
Property Taxes	85,451,188	84,841,031
Other Taxes	18,926,396	19,572,215
Other	3,024,794	1,864,570
Total General Revenues	107,402,378	106,277,816
TOTAL REVENUES	186,690,996	181,111,706
EXPENSES		
General Government	31,552,148	32,954,221
Public Safety	73,632,824	70,147,699
Highways and Streets	15,464,132	14,288,450
Health	18,231,342	17,674,360
Social Services	7,914,628	8,120,070
Culture and Recreation	7,427,337	7,244,976
Education	35,440,590	15,308,638
Interest on Long-Term Debt	7,109,395	6,910,473
TOTAL EXPENSES	196,772,396	172,648,887
INCREASE (DECREASE) IN NET ASSETS	\$ (10,081,400)	\$ 8,462,819



# EXPENSES AND PROGRAM REVENUES *for fiscal year ending June 30, 2005*

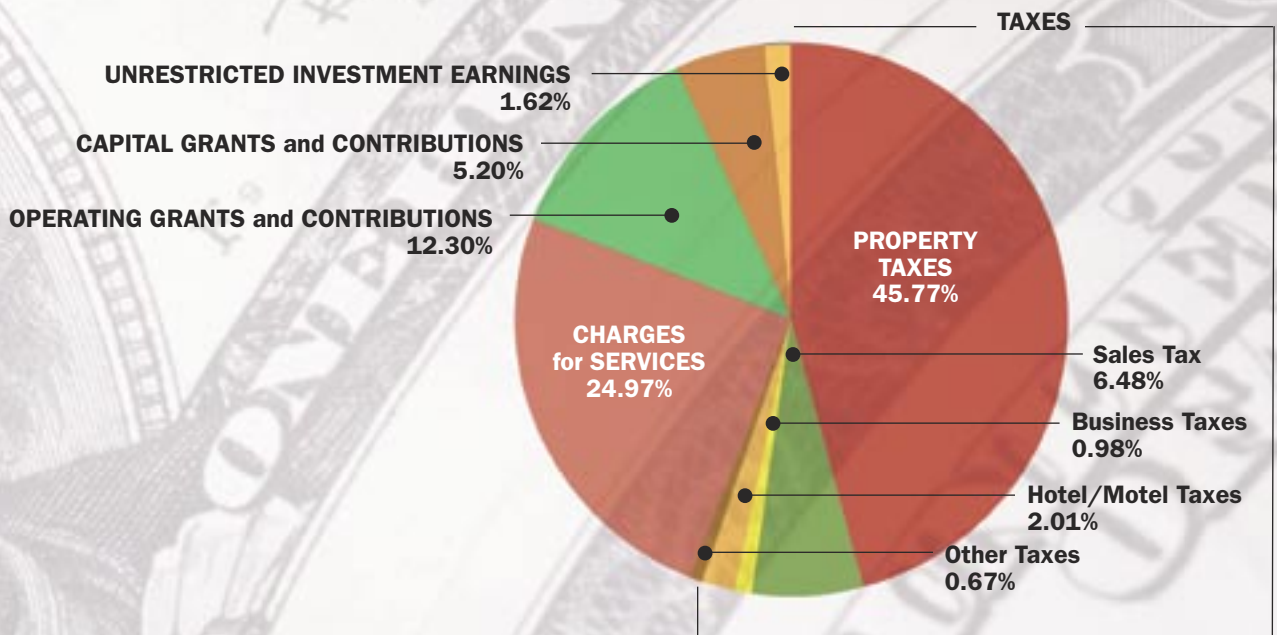
	REVENUES	EXPENSES
General Government	\$ 16,235,538	\$ 31,552,148
Public Safety		
Sheriff	5,001,475	23,797,816
Criminal Court	2,312,890	3,516,738
Juvenile Court	686,231	7,214,860
Ambulance Services	17,770,987	17,687,413
Other	7,536,206	21,415,997
Highways and Streets	12,774,448	15,464,132
Health	9,120,864	18,231,342
Social Services	3,809,663	7,914,628
Culture and Recreation	4,040,316	7,427,337
Education	—	35,440,590
Interest on long-term debt	—	7,109,395
TOTAL	<u>\$ 79,288,618</u>	<u>\$ 196,772,396</u>





## REVENUES BY SOURCE *for fiscal year ending June 30, 2005*

	2005	PERCENTAGE	2004	PERCENTAGE
<b>Taxes</b>				
Property Taxes	\$ 85,451,188	45.77%	\$ 84,841,031	46.84%
Sales Tax	12,102,963	6.48%	11,173,363	6.17%
Business Taxes	1,830,352	0.98%	3,602,133	1.99%
Hotel/Motel Tax	3,748,663	2.01%	3,447,598	1.90%
Other taxes	1,244,418	0.67%	1,349,121	0.75%
Charges for Services	46,616,348	24.97%	42,947,394	23.71%
Operating Grants and Contributions	22,965,548	12.30%	24,226,919	13.38%
Capital Grants and Contributions	9,706,722	5.20%	7,659,577	4.23%
Unrestricted Investment Earnings	3,024,794	1.62%	1,864,570	1.03%
<b>TOTAL</b>	<b>\$ 186,690,996</b>	<b>100.00%</b>	<b>181,111,706</b>	<b>100.00%</b>





# FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## GOVERNMENTAL FUNDS

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2005, the County's governmental funds reported combined ending fund balances of \$94,479,410, a decrease of \$18,842,370. The unreserved portion of fund balance was \$70,463,405. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed:

- 1) to liquidate contracts and purchase orders of the prior period (\$10,653,770);
- 2) for inventories, prepaid items and notes advances (\$8,841,984);
- 3) to pay debt service (\$1,343,179); and
- 4) to cover other legal requirements (\$3,965,503).

The General, Sheriff, Debt Service and Capital Projects funds are reported as major funds.

The General Fund is the chief operating fund of the County. At the end of fiscal year 2005, unreserved fund balance of the General Fund was \$46,751,479, while the total fund balance was \$49,714,308. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39.9 percent of the total General Fund expenditures, while total fund balance represents 42.4 percent of that same amount.

The unreserved fund balance of the County's General Fund decreased by \$3,485,561 during the current fiscal year. The major reasons for that change are as follows:

- Expenditures exceeded revenues by \$2,904,938
- Fund balance was budgeted to decrease by \$4,042,185

The Debt Service fund has a total fund balance of \$1,343,179. Beginning with the 1998 tax levy, the debt service tax levy was moved into the General Fund to better comply with federal arbitrage regulations. Funds are transferred to the Debt Service fund as needed.

Capital Projects has a total fund balance of \$36,712,601. This represents \$29,318,014 from the issuance of bonds, \$3,286,535 from interest earnings and \$4,108,052 from other sources. Of the total fund balance, commitments are \$7,546,891 or 20.5 percent for school construction, \$10,170,194 or 27.7 percent for economic development, \$3,404,996 or 9.3 percent for recreation projects and \$15,590,520 or 42.5 percent for general government improvements.

The Sheriff's fund balance of \$147,533 decreased by \$1,205,468 from the prior year. The use of fund balance was largely due to a decrease in inmate-related revenues.

## PROPRIETARY FUNDS

The County's Proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The County's Proprietary fund is used to account for the self-insurance programs. The County is self-insured for unemployment compensation, on-the-job injury claims, property and liability claims and losses due to liabilities arising under the laws of the state and federal governments. The cost for these programs is funded through premiums paid by the departments and agencies of Hamilton County Government. Unrestricted net assets for the Proprietary fund at the end of the fiscal year amounted to \$19,374,195.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the General Fund's original budget and final amended budget was \$5,649,415 and can be briefly summarized as follows:

- Budget amendments not expended from the prior fiscal year, carried over into the current fiscal year accounted for \$1,225,851 of the increase.
- New grants from various state and federal agencies accounted for \$4,258,521 of the increase.
- Adjustments to operating budgets or new appropriations accounted for the remaining \$165,043 increase.





# CAPITAL ASSETS AND DEBT ADMINISTRATION

## CAPITAL ASSETS

The County's investment in capital assets as of June 30, 2005 amounts to \$218,275,715 (net of accumulated depreciation \$163,685,664). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructures and construction in progress. The change in the County's investment in capital assets for the current fiscal year was 0.9 percent or \$3,650,840. Additional information on the County's capital assets can be found in Note H on pages 32 to 33 of this report.

Major capital asset events during the current fiscal year included the following:

- Completion of the Millennium Segment of the Riverwalk
- Infrastructure Construction of Enterprise South

## CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2005

### NET OF DEPRECIATION

	Beginning Balance	Additions	Retirements/ Depreciation	Ending Balance
Land	\$ 65,847,538	\$ 3,905,000	\$ (1,826,373)	\$ 67,926,165
Construction in Progress	30,068,497	14,459,114	(24,553,736)	19,973,875
Buildings	51,455,045	1,347,654	(2,337,545)	50,465,154
Improvements other than buildings	14,698,264	2,544,990	(938,668)	16,304,586
Machinery and equipment	9,412,685	2,950,887	(4,046,035)	8,317,537
Infrastructure	58,905,387	—	(3,616,989)	55,288,398
	<u>\$ 230,387,416</u>	<u>\$ 25,207,645</u>	<u>\$ (37,319,346)</u>	<u>\$ 218,275,715</u>





# LONG-TERM DEBT

At the end of fiscal year 2005, the County had general obligation bonds outstanding of \$143,380,000 and notes payable and other debt outstanding of \$19,570,147. Of this debt, \$86,943,704 or 53.36 percent was issued for Hamilton County Board of Education capital improvements.

The County’s outstanding notes and bonded debt decreased by \$20,065,477 or 11.0 percent during fiscal year 2005. The key factor was the scheduled retirement of \$20,836,838 in debt. Additional information on the County’s debt can be found in Note K on pages 39 to 42 of this report.

## ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The following factors were considered in preparing the County’s budget for fiscal year 2005:

- The property taxes and Trustee excess fees amount increased by \$17,422,086.
- Gross receipts tax of \$2.6 million was shifted back from the Board of Education’s budget to the General Fund.
- Sales tax revenue increased 6 percent.
- Intergovernmental revenues increased 3.8 percent primarily due to an increase for education. The Hamilton County Board of Education estimated an increase of \$1,704,236 and \$4,547,604 from state and federal funds respectively.
- Cost to fund the pension plan increased 1.81 percent.
- Cost to fund the performance-based pay plan for 2006 is \$2,253,770.
- Spending for the General Fund rose 5.5 percent, Special Revenue Fund increased by 6.25 percent, Hamilton County Board of Education rose 6.42 percent, and Debt Service decreased by 4.96 percent.

General Long-Term Debt			
General Obligation Bonds Outstanding	\$	143,380,000	87.99%
Other Notes		19,570,147	12.01%
		162,950,147	
Less: Unreserved Debt Service Fund Balance		(1,2343,179)	
Net General Long-Term Debt	\$	161,606,968	







## REQUESTS FOR INFORMATION

This financial report is designed to present users with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Finance Administrator, 123 East Seventh Street, Chattanooga, TN 37402.

Additional financial information can be found on our web-site <http://www.hamiltontn.gov>. Two discretely presented component units, "911" Emergency Communication and the Water & Wastewater Treatment Authority have separately issued financial reports that can be obtained from: Hamilton County "911" Emergency Communication District, 2402 Amnicola Highway, Chattanooga, TN 37406; Water & Wastewater Treatment Authority, P.O. Box 8856, Chattanooga, TN 37414.





# STATEMENT OF NET ASSETS

## HAMILTON COUNTY, TENNESSEE

June 30, 2005

	Primary Government Governmental Activities	Component Units
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,070,103	\$ 13,452,530
Certificates of deposit	-	2,721,442
Investments	94,749,669	30,909,861
Receivables, net of allowance for uncollectibles	104,843,072	131,521,500
Due from component units	8,172,290	149,649
Inventories	765,122	582,311
Prepaid items	893,490	6,579,817
Advances to component units	7,178,983	-
Net pension asset	1,589,422	-
Land and other nondepreciable assets	87,900,040	16,439,179
Other capital assets, net of accumulated depreciation	<u>130,375,675</u>	<u>239,272,086</u>
Total assets	<u>445,537,866</u>	<u>441,628,375</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	15,052,142	34,247,228
Due to primary government	-	89,391
Deferred revenue	82,241,781	108,178,447
Long-term liabilities:		
Due within one year	22,521,225	4,082,727
Due in more than one year	<u>154,501,192</u>	<u>40,742,362</u>
Total liabilities	<u>274,316,340</u>	<u>187,340,155</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	196,706,802	230,253,448
Restricted for:		
Capital projects	30,212,601	-
Other purposes	3,965,503	8,532,532
Unrestricted	<u>(59,663,380)</u>	<u>15,502,240</u>
Total net assets	<u>\$ 171,221,526</u>	<u>\$ 254,288,220</u>

The Notes to Basic Financial Statements are an integral part of this statement.

# STATEMENT OF ACTIVITIES

## HAMILTON COUNTY, TENNESSEE

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Government activities:			
General government	\$ 31,552,148	\$ 13,905,047	\$ 2,321,003
Public safety:			
Sheriff	23,797,816	1,174,128	3,769,390
Criminal Court	3,516,738	2,312,890	-
Juvenile Court	7,214,860	686,231	-
Ambulance Services	17,687,413	17,770,987	-
Other	21,415,997	2,691,956	4,831,600
Highways and streets	15,464,132	1,342,931	4,508,501
Health	18,231,342	2,841,652	6,279,212
Social services	7,914,628	3,427,119	382,544
Culture and recreation	7,427,337	463,407	873,298
Education	35,440,590	-	-
Interest on long-term debt	7,109,395	-	-
TOTAL PRIMARY GOVERNMENT	\$ 196,772,396	\$ 46,616,348	\$ 22,965,548
Component units:			
Education	\$ 314,647,082	\$ 25,463,651	\$ 45,312,125
Emergency communications	2,983,092	3,117,106	-
Water and wastewater treatment	6,184,072	6,243,815	-
TOTAL COMPONENT UNITS	\$ 323,814,246	\$ 34,824,572	\$ 45,312,125
General revenues:			
Property taxes			
Sales taxes			
Business taxes			
Hotel/Motel taxes			
Other taxes			
Grants and contributions not restricted to specific programs			
Unrestricted investment earnings			
Total general revenues			
Change in net assets			
Net assets, beginning			
Net assets, ending			

The Notes to Basic Financial Statements are an integral part of this statement.



	Net (Expense) Revenues and Changes in Net Assets	
	Primary Government Governmental Activities	Components Units
Capital Grants and Contributions		
\$ 9,488	\$ (15,316,610)	
57,957	(18,796,341)	
-	(1,203,848)	
-	(6,528,629)	
-	83,574	
12,650	(13,879,791)	
6,923,016	(2,689,684)	
-	(9,110,478)	
-	(4,104,965)	
2,703,611	(3,387,021)	
-	(35,440,590)	
-	(7,109,395)	
<u>\$ 9,706,722</u>	<u>(117,483,778)</u>	
\$ 27,377,615		\$ (216,493,691)
-		134,014
<u>3,546,437</u>		<u>3,606,180</u>
<u>\$ 30,924,052</u>		<u>(212,753,497)</u>
	85,451,188	98,459,829
	12,102,963	51,047,620
	1,830,352	-
	3,748,663	-
	1,244,418	-
	-	91,714,731
	<u>3,024,794</u>	<u>911,291</u>
	<u>107,402,378</u>	<u>242,133,471</u>
	(10,081,400)	29,379,974
	<u>181,302,926</u>	<u>224,908,246</u>
	<u>\$ 171,221,526</u>	<u>\$ 254,288,220</u>

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**HAMILTON COUNTY, TENNESSEE  
June 30, 2005**

	General	Sheriff	Debt Service
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,685,691	\$ 84,263	\$ 132,568
Investments	41,173,513	610,368	344
Receivables, net of allowance for uncollectibles	100,256,074	855,541	710,856
Due from other funds	3,088,704	6,316	2,335,427
Due from component units	417,891	-	-
Inventories	765,122	-	-
Prepaid items	788,431	-	-
Advances to component units	-	-	-
Total assets	<u>\$ 150,175,426</u>	<u>\$ 1,556,488</u>	<u>\$ 3,179,195</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Bank overdraft	\$ -	\$ 405,312	\$ 1,310,892
Accounts payable	2,096,845	308,731	21,946
Accrued items and other	1,553,856	408,135	-
Intergovernmental payables	4,055,703	-	-
Due to other funds	2,630,897	286,777	285,000
Due to component units	2,605,000	-	-
Deferred revenues:			
Uncollected property taxes	87,309,056	-	-
Other	209,761	-	218,178
Total liabilities	<u>100,461,118</u>	<u>1,408,955</u>	<u>1,836,016</u>
<b>Fund balances:</b>			
Reserved for:			
Encumbrances	1,409,276	165,333	-
Inventories	765,122	-	-
Advances	-	-	-
Prepaid items	788,431	-	-
Debt service	-	-	1,343,179
Tourism	-	-	-
Litigants and beneficiaries	-	-	-
Restricted activities	-	653,509	-
Unreserved, reported in:			
General fund	46,751,479	-	-
Capital projects fund	-	-	-
Special revenue funds	-	(671,309)	-
Total fund balances	<u>49,714,308</u>	<u>147,533</u>	<u>1,343,179</u>
Total liabilities and fund balances	<u>\$ 150,175,426</u>	<u>\$ 1,556,488</u>	<u>\$ 3,179,195</u>

The Notes to Basic Financial Statements are an integral part of this statement.



Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 2,078,512	\$ 2,870,053	\$ 8,851,087
26,788,642	6,493,352	75,066,219
2,200,094	823,617	104,846,182
145,938	75,739	5,652,124
-	-	417,891
-	-	765,122
-	-	788,431
6,500,000	-	6,500,000
<u>\$ 37,713,186</u>	<u>\$ 10,262,761</u>	<u>\$ 202,887,056</u>

\$ -	\$ -	\$ 1,716,204
773,841	-	3,201,363
-	791,663	2,753,654
134,508	-	4,190,211
92,236	2,909,309	6,204,219
-	-	2,605,000
-	-	87,309,056
-	-	427,939
<u>1,000,585</u>	<u>3,700,972</u>	<u>108,407,646</u>

9,079,161	-	10,653,770
-	-	765,122
6,500,000	-	6,500,000
-	-	788,431
-	-	1,343,179
-	906,367	906,367
-	1,784,033	1,784,033
-	621,594	1,275,103
-	-	46,751,479
21,133,440	-	21,133,440
-	3,249,795	2,578,486
<u>36,712,601</u>	<u>6,561,789</u>	<u>94,479,410</u>
<u>\$ 37,713,186</u>	<u>\$ 10,262,761</u>	<u>\$ 202,887,056</u>

# RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

## HAMILTON COUNTY, TENNESSEE

June 30, 2005

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Differences in amounts reported for governmental activities in the statement of net assets on page 1:

Fund balances - total governmental funds	\$ 94,479,410
--	---------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	218,275,715
---	-------------

Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	5,500,696
---	-----------

Internal service funds are used by management to charge the costs of self-insurance programs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	19,374,195
--	------------

The County-administered pension plans have been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.	1,589,422
---	-----------

Long-term assets receivable from a component unit are not due until the related long-term liability is due and payable	11,035,272
--	------------

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:

General obligation bonds	\$143,380,000	
Add: original issue premiums	1,592,334	
Notes payable & other debt	19,570,147	
Landfill post closure costs	270,000	
Compensated absences	12,209,936	
Accrued interest payable	<u>2,010,767</u>	
		(179,033,184)

Net assets of governmental activities	<u>\$ 171,221,526</u>
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The Notes to Basic Financial Statements are an integral part of this statement.



**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**HAMILTON COUNTY, TENNESSEE**

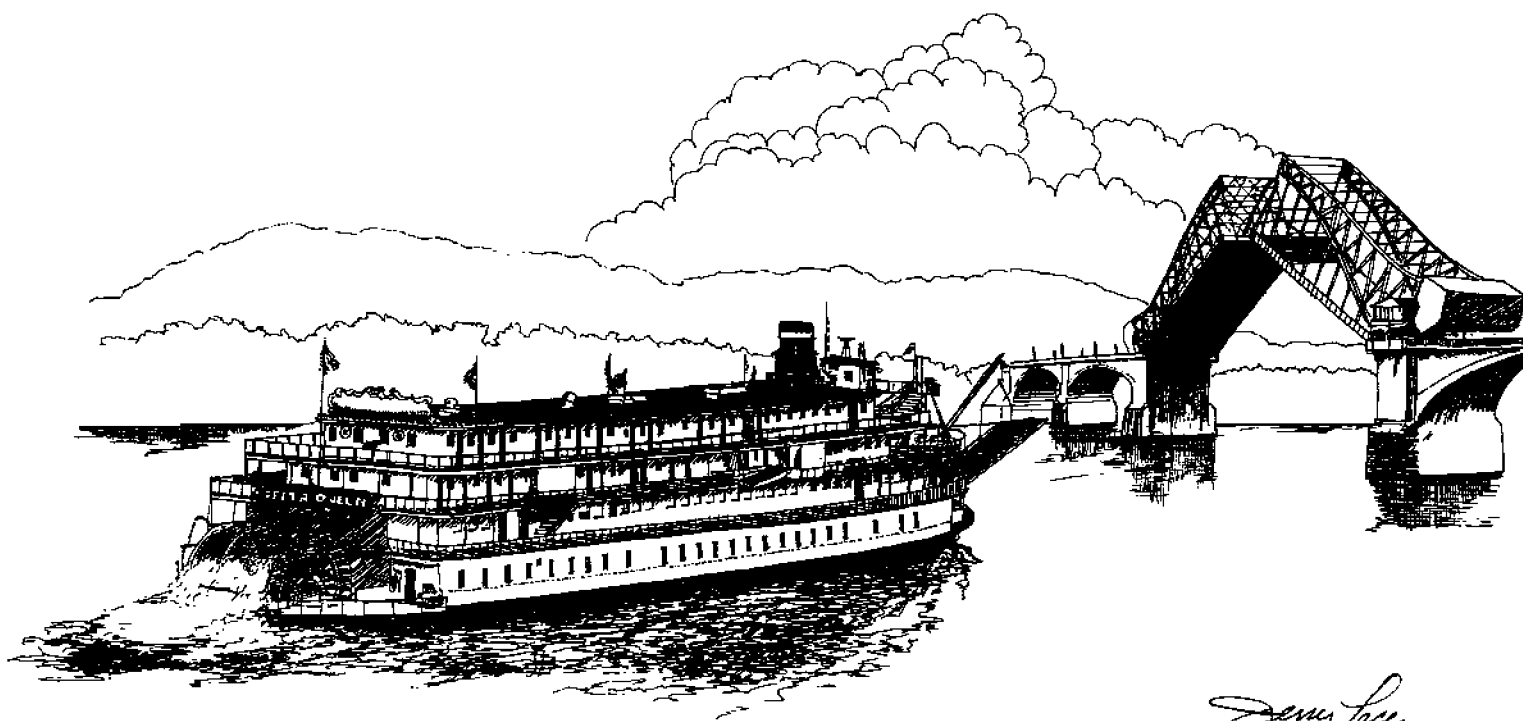
**Year ended June 30, 2005**

	General	Sheriff	Debt Service
REVENUES			
Taxes	\$ 100,118,194	\$ -	\$ 614
Licenses and permits	996,136	-	-
Intergovernmental	18,361,020	3,769,390	1,474,417
Charges for services	22,068,902	68,955	424,231
Fines, forfeitures and penalties	1,318,594	627,319	-
Investment earnings	1,013,334	32,106	19,702
Miscellaneous	2,618,793	477,854	267
Total revenues	<u>146,494,973</u>	<u>4,975,624</u>	<u>1,919,231</u>
EXPENDITURES			
Current:			
General government	29,215,178	-	-
Public safety:			
Sheriff	-	22,599,098	-
Criminal Court	951,212	-	-
Juvenile Court	5,328,739	-	-
Ambulance Services	17,514,899	-	-
Other	20,344,462	-	-
Highways and streets	9,663,858	-	-
Health	17,873,029	-	-
Social services	4,488,059	-	-
Culture and recreation	9,331,150	-	-
Debt service:			
Principal	-	-	20,716,808
Interest and fiscal charges	-	-	7,370,865
Capital outlay:			
General government	2,489,398	-	-
Education	-	-	-
Total expenditures	<u>117,199,984</u>	<u>22,599,098</u>	<u>28,087,673</u>
Excess (deficiency) of revenues over (under) expenditures	<u>29,294,989</u>	<u>(17,623,474)</u>	<u>(26,168,442)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	11,420,376	16,424,447	26,519,783
Transfers out	(43,660,975)	(6,441)	(285,000)
Bond and note proceeds	-	-	-
Sale of capital assets	40,672	-	-
Total other financing sources and uses	<u>(32,199,927)</u>	<u>16,418,006</u>	<u>26,234,783</u>
Net change in fund balances	(2,904,938)	(1,205,468)	66,341
Fund balances, beginning	<u>52,619,246</u>	<u>1,353,001</u>	<u>1,276,838</u>
Fund balances, ending	<u>\$ 49,714,308</u>	<u>\$ 147,533</u>	<u>\$ 1,343,179</u>

The Notes to Basic Financial Statements are an integral part of this statement.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 3,767,097	\$ 103,885,905
-	-	996,136
9,172,837	-	32,777,664
15,118	17,883,936	40,461,142
-	87,472	2,033,385
897,737	532,492	2,495,371
466,440	28,771	3,592,125
<u>10,552,132</u>	<u>22,299,768</u>	<u>186,241,728</u>
-	4,835,542	34,050,720
-	-	22,599,098
-	2,268,479	3,219,691
-	1,677,160	7,005,899
-	-	17,514,899
-	15,056	20,359,518
-	-	9,663,858
-	-	17,873,029
-	3,286,596	7,774,655
-	-	9,331,150
-	-	20,716,808
-	-	7,370,865
18,321,998	48,681	20,860,077
9,424,380	-	9,424,380
<u>27,746,378</u>	<u>12,131,514</u>	<u>207,764,647</u>
<u>(17,194,246)</u>	<u>10,168,254</u>	<u>(21,522,919)</u>
304,426	1,013,230	55,682,262
-	(11,604,846)	(55,557,262)
934	-	934
2,513,943	-	2,554,615
<u>2,819,303</u>	<u>(10,591,616)</u>	<u>2,680,549</u>
(14,374,943)	(423,362)	(18,842,370)
51,087,544	6,985,151	113,321,780
<u>\$ 36,712,601</u>	<u>\$ 6,561,789</u>	<u>\$ 94,479,410</u>





# RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

## HAMILTON COUNTY, TENNESSEE

Year ended June 30, 2005

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Differences in amounts reported for governmental activities in the statement of activities on pages 2 and 3:

Net change in fund balances - total governmental funds	\$ (18,842,370)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of net assets	653,911
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities	(10,096,436)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums and deferred amount on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment on long-term debt and related items.	20,725,874
The net revenues of internal service funds are reported with governmental activities	71,069
The net effect of various transactions involving capital assets is to decrease net assets	(2,669,176)
The net effect of the change in the net pension asset is included in the governmental activities in the statement of activities	28,616
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	127,267
Certain governmental revenues will not be collected for several months after the fiscal year and are deferred in the governmental funds	<u>(80,155)</u>
Change in net assets of governmental activities	<u>\$ (10,081,400)</u>

The Notes to Basic Financial Statements are an integral part of this statement.



# **BUDGETARY COMPARISON STATEMENT**

## **GENERAL FUND**

**HAMILTON COUNTY, TENNESSEE**  
**Year ended June 30, 2005**

	Original Budget	Final Budget	Actual (Non-GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 102,879,778	\$ 100,198,378	\$ 100,118,194	\$ (80,184)
Licenses and permits	713,000	976,000	996,136	20,136
Intergovernmental revenues	17,191,855	22,144,638	18,361,020	(3,783,618)
Charges for services	12,448,348	12,513,648	11,129,723	(1,383,925)
Fines, forfeitures and penalties	963,801	963,801	1,318,594	354,793
Investment earnings	575,500	575,500	1,013,334	437,834
Miscellaneous	3,023,261	2,979,161	2,618,793	(360,368)
Total revenues	137,795,543	140,351,126	135,555,794	(4,795,332)
<b>EXPENDITURES</b>				
Current:				
General government	32,588,072	31,215,599	29,051,279	2,164,320
Public safety	31,965,308	36,172,470	33,222,726	2,949,744
Highways and streets	9,728,309	10,094,945	9,986,298	108,647
Health	18,047,441	19,150,206	17,800,555	1,349,651
Social services	4,377,249	4,637,524	4,495,201	142,323
Culture and recreation	9,298,103	9,691,705	9,312,030	379,675
Capital outlay	2,787,304	3,256,555	2,464,483	792,072
Total expenditures	108,791,786	114,219,004	106,332,572	7,886,432
Excess of revenues over expenditures	29,003,757	26,132,122	29,223,222	3,091,100
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	10,867,465	10,867,465	11,420,376	552,911
Transfers out	(43,960,407)	(44,182,604)	(43,660,975)	521,629
Sale of capital assets	47,000	47,000	40,672	(6,328)
Total other financing sources (uses)	(33,045,942)	(33,268,139)	(32,199,927)	1,068,212
Net change in fund balance	(4,042,185)	(7,136,017)	(2,976,705)	4,159,312
Fund balance allocation	4,042,185	7,136,017	-	(7,136,017)
	\$ -	\$ -	(2,976,705)	\$ (2,976,705)
Add encumbrances at end of year			1,409,276	
Less encumbrances at beginning of year			(1,337,509)	
Net change in fund balance--(GAAP Modified Accrual Basis)			(2,904,938)	
Fund balance at beginning of year--(GAAP Modified Accrual Basis)			52,619,246	
Fund balance at end of year--(GAAP Modified Accrual Basis)			\$ 49,714,308	

The Notes to Basic Financial Statements are an integral part of this statement.

**BUDGETARY COMPARISON STATEMENT  
SHERIFF FUND**

**HAMILTON COUNTY, TENNESSEE  
Year ended June 30, 2005**

	Budget Original	Budget Final	Actual (Non - GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$ 3,866,942	\$ 4,856,419	\$ 3,769,390	\$ (1,087,029)
Charges for current services	134,000	134,000	68,955	(65,045)
Fines, forfeitures and penalties	651,500	651,500	627,319	(24,181)
Investment earnings	27,000	27,000	32,106	5,106
Miscellaneous	500,000	500,000	477,854	(22,146)
Total revenues	<u>5,179,442</u>	<u>6,168,919</u>	<u>4,975,624</u>	<u>(1,193,295)</u>
<b>EXPENDITURES</b>				
Current:				
Public safety:				
Administration	1,378,979	1,385,530	1,115,897	269,633
Patrol	5,713,024	5,767,214	5,764,429	2,785
Jail	8,861,933	8,895,758	8,982,623	(86,865)
Process and court servers	919,448	929,690	901,796	27,894
Communications	1,413,158	1,423,222	1,313,789	109,433
Major crimes	1,365,460	1,379,871	1,174,345	205,526
Fugitive warrant	918,524	935,436	928,830	6,606
DUI division	-	1,429	8,051	(6,622)
Special operations	896,329	904,607	884,207	20,400
Inmate commissary	-	-	263,133	(263,133)
Stop Violence Against Women	6,493	80,869	49,747	31,122
Cops in school program	-	1,965	7,221	(5,256)
East TN Methamphetamine Task Force	-	1,156,223	1,110,116	46,107
Government highway safety grant	-	-	572	(572)
R.I.D. grant	-	76,010	74,415	1,595
IV-D civil process	137,338	137,338	137,727	(389)
Homeland Security	-	73,855	11,701	62,154
Total budgetary expenditures	<u>21,610,686</u>	<u>23,149,017</u>	<u>22,728,599</u>	<u>420,418</u>
Excess (deficiency) of revenues over (under) budgetary expenditures	(16,431,244)	(16,980,098)	(17,752,975)	(772,877)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>16,266,044</u>	<u>16,424,447</u>	<u>16,424,447</u>	<u>-</u>
Net change in fund balance	(165,200)	(555,651)	(1,328,528)	(772,877)
Fund balance allocation	<u>165,200</u>	<u>555,651</u>	<u>-</u>	<u>(555,651)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>(1,328,528)</u>	<u>\$ (1,328,528)</u>
Add encumbrances at end of year			165,333	
Less encumbrances at beginning of year			(42,273)	
Net change in fund balance--(GAAP)			(1,205,468)	
Fund balances at beginning of year--(GAAP)			<u>1,353,001</u>	
Fund balances at end of year--(GAAP)			<u>\$ 147,533</u>	

The Notes to Basic Financial Statements are an integral part of this statement.

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE  
June 30, 2005**

	Governmental Activities - Internal Service Fund
	<hr/>
ASSETS	
Cash	\$ 219,016
Investments	19,683,450
Due from other funds	677,095
Prepaid Insurance	<hr/> 105,059
Total assets	<hr/> 20,684,620
LIABILITIES	
Accounts payable	50,094
Accrued claims	1,129,848
Due to other funds	125,000
Deferred revenue	<hr/> 5,483
Total liabilities	<hr/> 1,310,425
NET ASSETS	
Unrestricted	<hr/> <hr/> \$ 19,374,195

The Notes to Basic Financial Statements are an integral part of this statement.

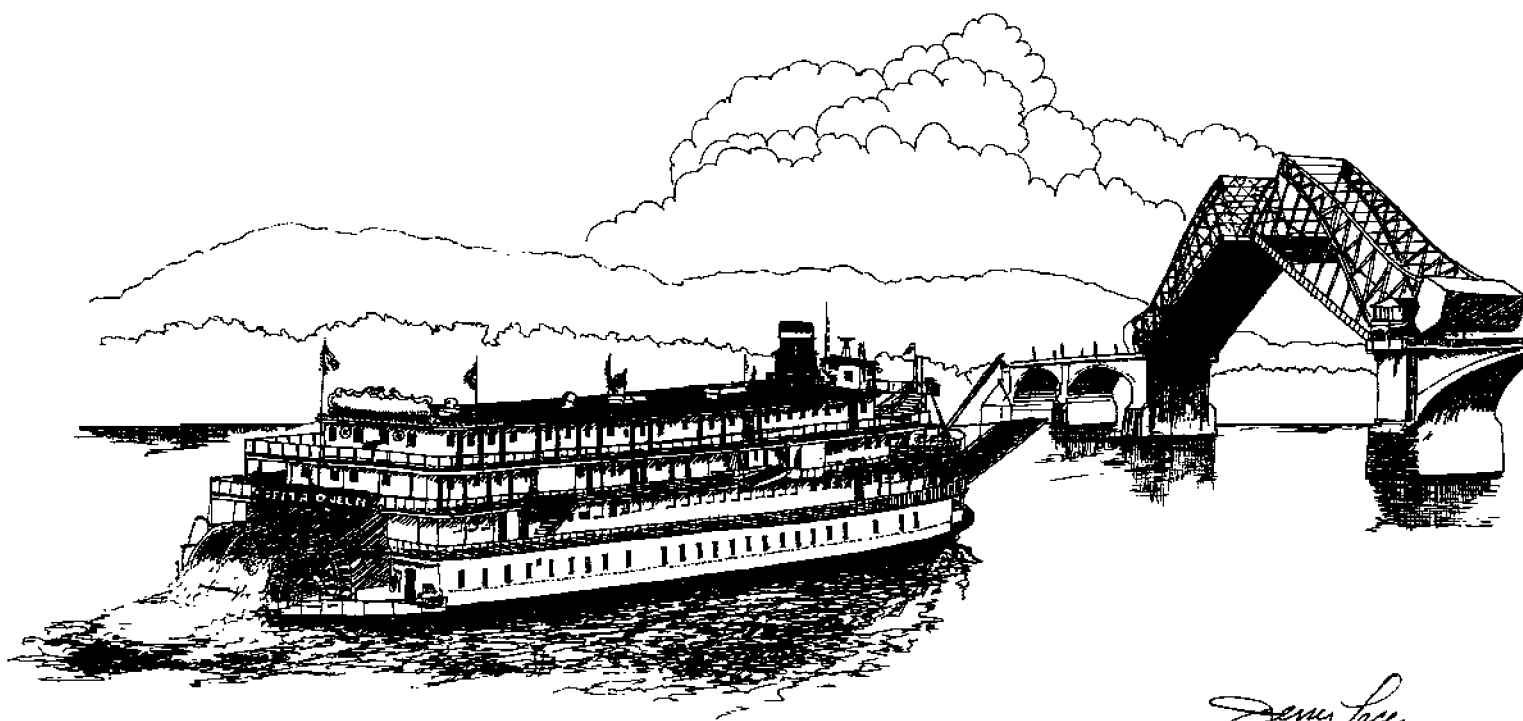


**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS  
PROPRIETARY FUND**

**HAMILTON COUNTY, TENNESSEE  
Year ended June 30, 2005**

	Governmental Activities - Internal Service Fund
	<hr/>
OPERATING REVENUES	
Charges for services	\$ 13,579,646
Other	<u>535,257</u>
Total operating revenues	<u>14,114,903</u>
OPERATING EXPENSES	
Unemployment compensation	26,877
Claims and premiums	14,296,438
Administration	<u>124,942</u>
Total operating expenses	<u>14,448,257</u>
Operating income (loss)	(333,354)
NONOPERATING REVENUES	
Investment earnings	<u>529,423</u>
Income (loss) before transfers	196,069
Transfers out	<u>(125,000)</u>
Change in net assets	71,069
Net assets, beginning	<u>19,303,126</u>
Net assets, ending	<u>\$ 19,374,195</u>

The Notes to Basic Financial Statements are an integral part of this statement.



# STATEMENT OF CASH FLOWS

## PROPRIETARY FUND

**HAMILTON COUNTY, TENNESSEE**  
**Year ended June 30, 2005**

	Governmental Activities - Internal Service Fund
<hr/>	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from (paid for) insurance premiums	\$ 13,497,811
Cash paid for unemployment compensation	(23,555)
Cash paid for claims and premiums	(14,444,197)
Cash paid for administration	(104,942)
	<hr/>
Net cash used in operating activities	(1,074,883)
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	(125,000)
	<hr/>
Net cash used in non-capital financing activities	(125,000)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(19,683,450)
Proceeds from sale of investments	20,295,167
Interest on investments	529,423
	<hr/>
Net cash provided by investing activities	1,141,140
	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(58,743)
BEGINNING CASH AND CASH EQUIVALENTS	277,759
	<hr/>
ENDING CASH AND CASH EQUIVALENTS	\$ 219,016
	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (333,354)
	<hr/>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	
Change in due from other funds	(553,357)
Change in due from component units	30,305
Change in accounts payable	19,327
Change in accrued claims	(115,569)
Change in prepaid insurance	(105,059)
Change in due to other funds	(19,511)
Change in deferred revenue	2,335
	<hr/>
Total adjustments	(741,529)
	<hr/>
Net cash used by operating activities	\$ (1,074,883)
	<hr/>

The Notes to Basic Financial Statements are an integral part of this statement.



**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

**HAMILTON COUNTY, TENNESSEE**

**June 30, 2005**

	Pension Trust Funds	Constitutional Officers Agency Funds
<b>ASSETS</b>		
Cash	\$ 328,878	\$ 7,504,537
Certificates of deposit	148,702	10,760,963
Investments, at fair value:		
U.S. Government agency securities	220,468	-
Domestic corporate bonds	186,727	-
Domestic equity securities	1,252,539	-
Pooled investments	704,350	243,500
Money market/Mutual funds	12,331	-
	<u>2,376,415</u>	<u>243,500</u>
Total investments		
	<u>2,376,415</u>	<u>243,500</u>
Receivables:		
Interest	8,617	-
Accounts	-	6,653
Due from other funds	-	203,986
	<u>-</u>	<u>203,986</u>
Total assets	<u>2,862,612</u>	<u>18,719,639</u>
<b>LIABILITIES</b>		
Accrued items and other	1,280	14,434,511
Intergovernmental payables	-	4,285,128
	<u>-</u>	<u>4,285,128</u>
Total liabilities	<u>1,280</u>	<u>18,719,639</u>
<b>NET ASSETS</b>		
Assets held in trust for pension benefits	<u>\$ 2,861,332</u>	<u>\$ -</u>

The Notes to Basic Financial Statements are an integral part of this statement.

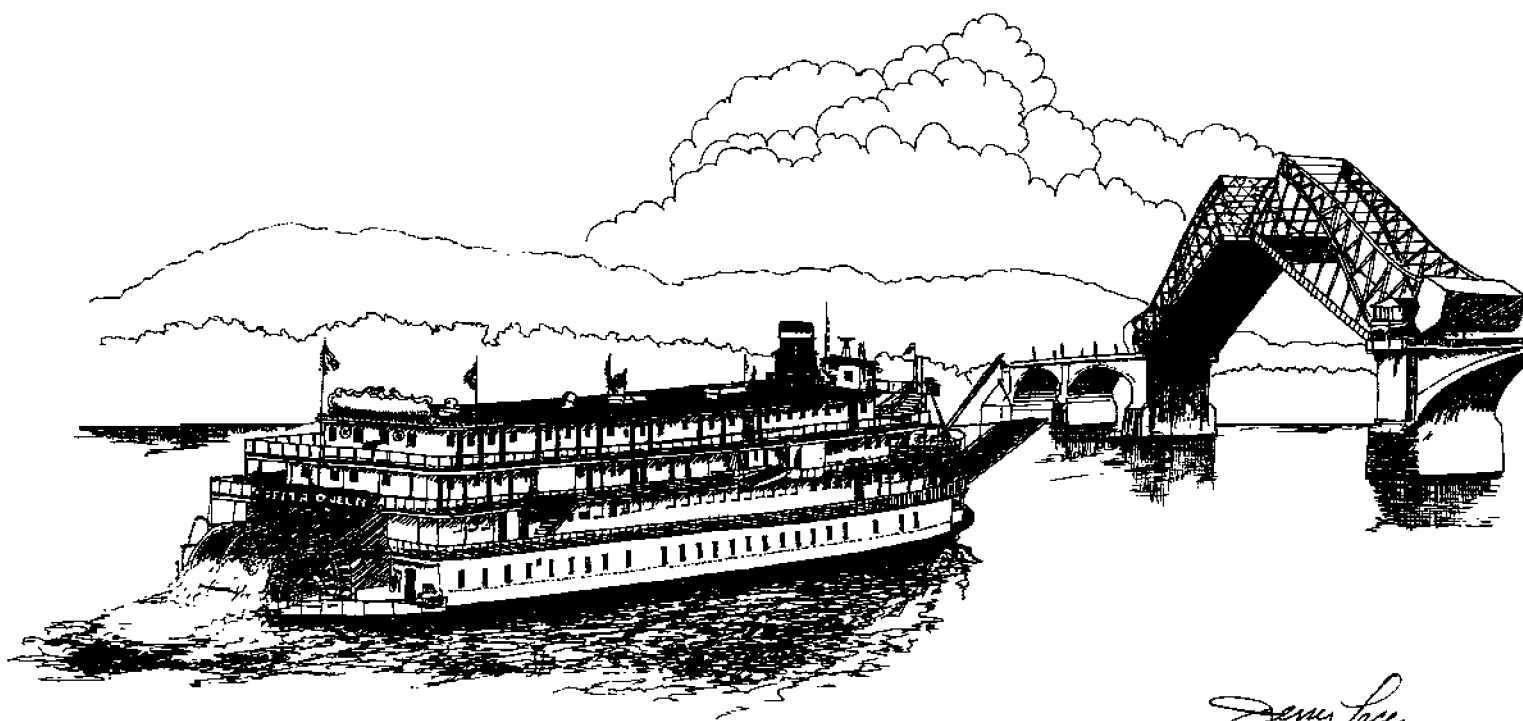
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

**HAMILTON COUNTY, TENNESSEE**

**Year ended June 30, 2005**

	Pension Trust Funds
	<hr/>
ADDITIONS	
Contributions:	
Employer	\$ 68,353
Plan members	<u>36,479</u>
Total contributions	<u>104,832</u>
Investment earnings:	
Net increase in fair value of investments	592
Interest	<u>66,436</u>
Net investment income	<u>67,028</u>
Total additions	<u>171,860</u>
DEDUCTIONS	
Benefits	292,146
Administrative expense	<u>17,727</u>
Total deductions	<u>309,873</u>
Change in net assets	(138,013)
Net assets, beginning	<u>2,999,345</u>
Net assets, ending	<u><u>\$ 2,861,332</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.





**STATEMENT OF NET ASSETS  
COMPONENT UNITS**

**HAMILTON COUNTY, TENNESSEE**

**June 30, 2005**

	Hamilton County Board of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,713,807	\$ 261,280	\$ 1,477,443	\$ 13,452,530
Certificates of deposit	306,337	2,415,105	-	2,721,442
Investments	23,985,820	2,281,777	4,642,264	30,909,861
Receivables, net of allowance for uncollectibles	130,368,974	488,342	664,184	131,521,500
Receivables, restricted	-	-	149,649	149,649
Inventories	477,460	-	104,851	582,311
Prepaid items	6,364,213	28,144	187,460	6,579,817
Land and other nondepreciable assets	15,064,675	-	1,374,504	16,439,179
Capital assets, net of accumulated depreciation	<u>173,381,726</u>	<u>6,782,752</u>	<u>59,107,608</u>	<u>239,272,086</u>
Total assets	<u>361,663,012</u>	<u>12,257,400</u>	<u>67,707,963</u>	<u>441,628,375</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	33,293,666	126,751	826,811	34,247,228
Due to primary government	-	-	89,391	89,391
Deferred revenue	108,178,447	-	-	108,178,447
Noncurrent liabilities:				
Due within one year	2,906,440	-	1,176,287	4,082,727
Due in more than one year	<u>11,818,568</u>	<u>-</u>	<u>28,923,794</u>	<u>40,742,362</u>
Total liabilities	<u>156,197,121</u>	<u>126,751</u>	<u>31,016,283</u>	<u>187,340,155</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	188,446,401	6,782,752	35,024,295	230,253,448
Restricted for:				
Food services	1,053,892	-	-	1,053,892
Extracurricular activities	6,323,479	-	-	6,323,479
Other purposes	1,155,161	-	-	1,155,161
Unrestricted	<u>8,486,958</u>	<u>5,347,897</u>	<u>1,667,385</u>	<u>15,502,240</u>
Total net assets	<u>\$205,465,891</u>	<u>\$ 12,130,649</u>	<u>\$36,691,680</u>	<u>\$ 254,288,220</u>

The Notes to Basic Financial Statements are an integral part of this statement.

**STATEMENT OF ACTIVITIES  
COMPONENT UNITS**

**HAMILTON COUNTY, TENNESSEE**

**Year ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
HAMILTON COUNTY BOARD OF EDUCATION				
Regular instruction	\$ 150,127,867	\$ 1,965,311	\$ 21,765,986	\$ 15,667,184
Exceptional instruction	31,666,215	-	3,491,366	3,286,925
Vocational instruction	9,188,813	-	1,013,060	954,836
Support services:				
Pupil services	7,995,030	-	886,602	835,647
Instructional staff	17,152,251	-	2,173,052	-
Board of education	4,838,273	-	556,366	-
Administration	18,600,119	-	2,196,550	2,007,384
Business and fiscal services	1,785,840	-	245,987	-
Plant operation and maintenance	25,851,998	-	2,878,899	2,787,786
Pupil transportation	12,321,757	573	1,361,825	-
Central	2,933,586	24	328,013	-
Operation of noninstructional services:				
Community services	2,633,008	2,783,852	290,947	274,225
Extracurricular	14,521,939	13,680,995	-	-
Child Nutrition	15,030,386	7,032,896	8,123,472	1,563,628
TOTAL BOARD OF EDUCATION	314,647,082	25,463,651	45,312,125	27,377,615
"911" EMERGENCY COMMUNICATIONS				
Emergency communications operations	2,983,092	3,117,106	-	-
WATER & WASTEWATER TREATMENT AUTHORITY				
Water and wastewater treatment operations	6,184,072	6,243,815	-	3,546,437
TOTAL COMPONENT UNITS	\$ 323,814,246	\$ 34,824,572	\$ 45,312,125	\$ 30,924,052

General revenues:

Property taxes

Sales taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Total general revenues

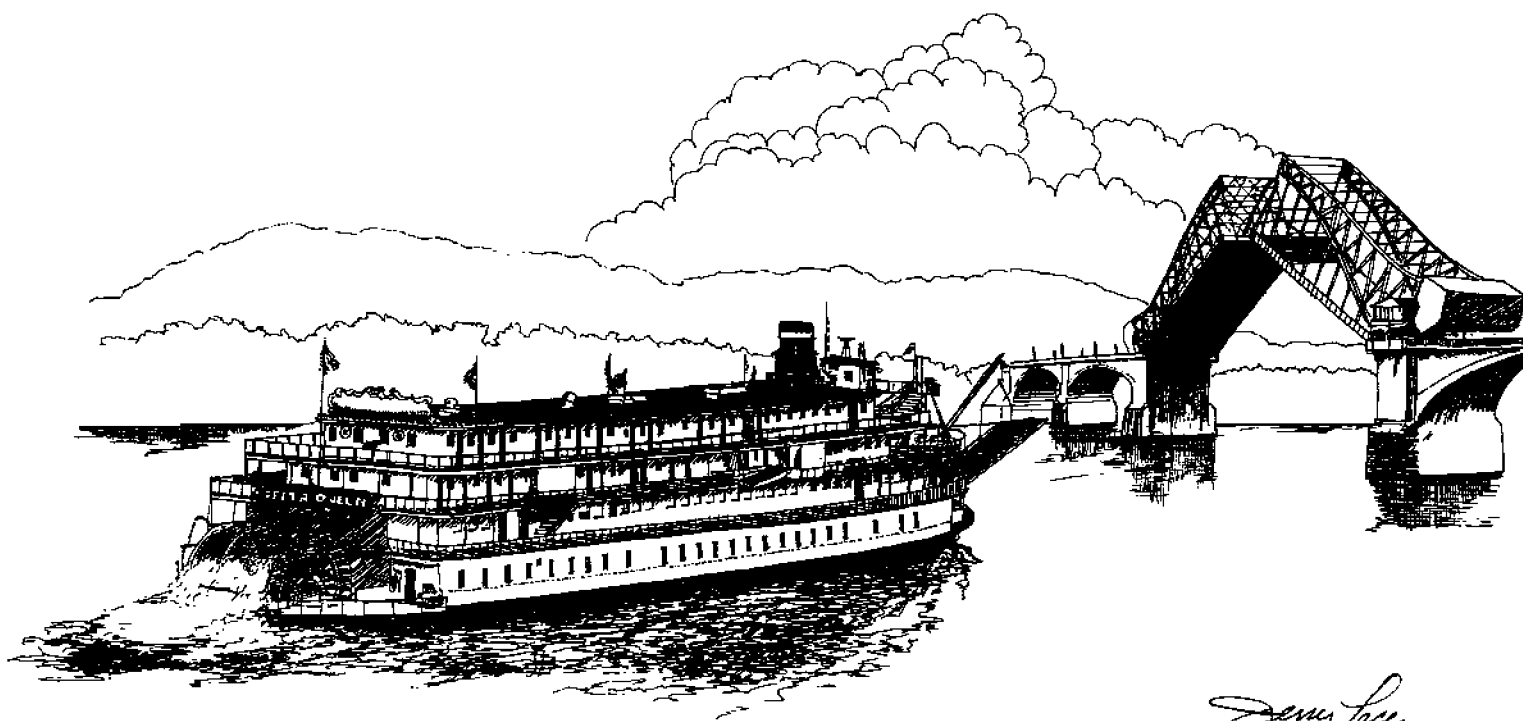
Change in net assets

Net assets, beginning

Net assets, ending

Net (Expense) Revenue and Changes in Net Assets			
Hamilton County Board of Education	"911" Emergency Communication	Water & Wastewater Treatment Authority	Total
\$ (110,729,386)			\$ (110,729,386)
(24,887,924)			(24,887,924)
(7,220,917)			(7,220,917)
(6,272,781)			(6,272,781)
(14,979,199)			(14,979,199)
(4,281,907)			(4,281,907)
(14,396,185)			(14,396,185)
(1,539,853)			(1,539,853)
(20,185,313)			(20,185,313)
(10,959,359)			(10,959,359)
(2,605,549)			(2,605,549)
716,016			716,016
(840,944)			(840,944)
<u>1,689,610</u>			<u>1,689,610</u>
<u>(216,493,691)</u>			
	<u>\$ 134,014</u>		134,014
		<u>\$ 3,606,180</u>	<u>3,606,180</u>
			<u>(212,753,497)</u>
98,459,829	-	-	98,459,829
51,047,620	-	-	51,047,620
91,714,731	-	-	91,714,731
<u>667,087</u>	<u>83,246</u>	<u>160,958</u>	<u>911,291</u>
<u>241,889,267</u>	<u>83,246</u>	<u>160,958</u>	<u>242,133,471</u>
25,395,576	217,260	3,767,138	29,379,974
<u>180,070,315</u>	<u>11,913,389</u>	<u>32,924,542</u>	<u>224,908,246</u>
<u>\$ 205,465,891</u>	<u>\$ 12,130,649</u>	<u>\$ 36,691,680</u>	<u>\$ 254,288,220</u>





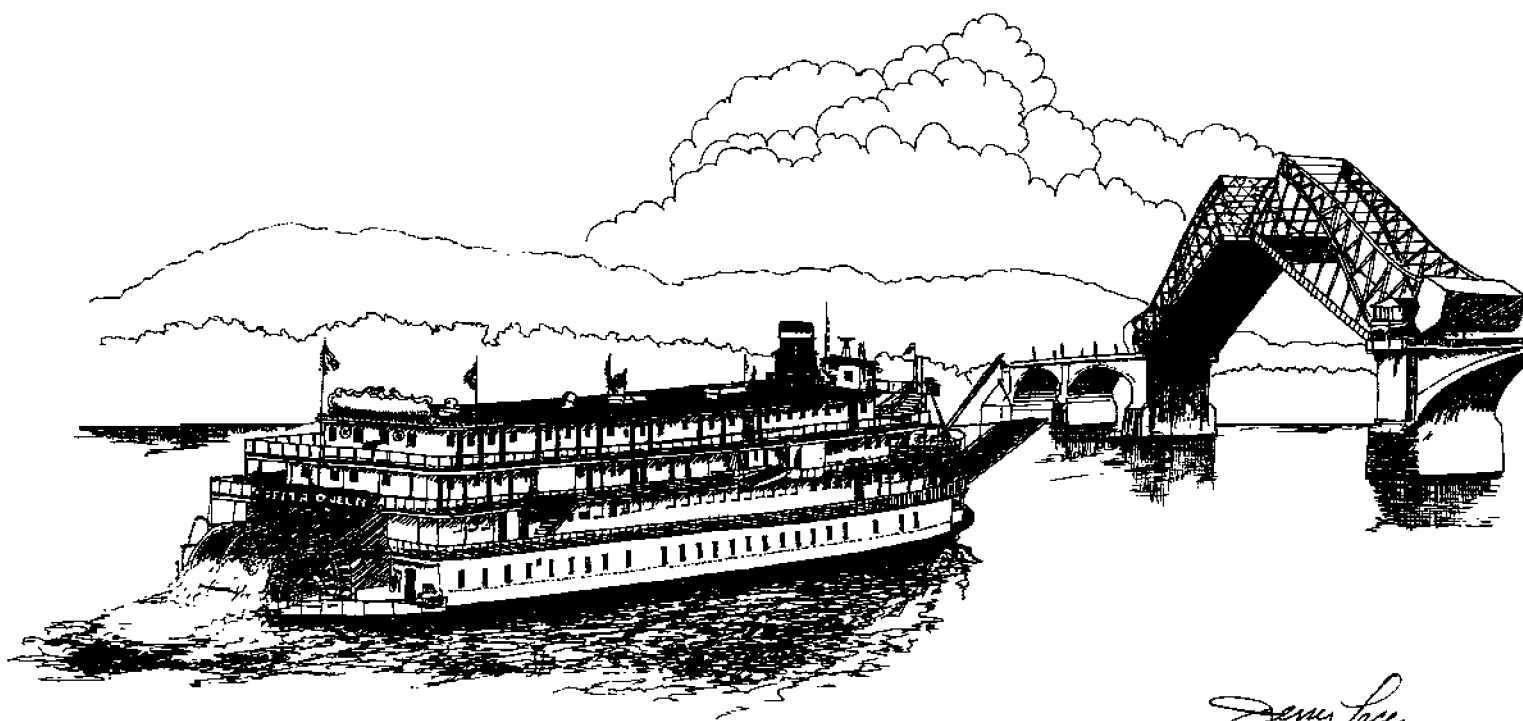
*Jerry Lee*  
90

## **NOTES TO BASIC FINANCIAL STATEMENTS**

### **HAMILTON COUNTY, TENNESSEE**

**June 30, 2005**

	<b><u>Page</u></b>
Note A - Summary of Significant Accounting Policies	20
Note B - Stewardship, Compliance and Accountability	29
Note C - Cash and Investments	29
Note D - Receivables	30
Note E - Solid Waste Disposal Closure and Post Closure Care Costs	31
Note F - Commitments and Contingencies	31
Note G - Hamilton County Nursing Home	31
Note H - Capital Assets	32
Note I - Employee Retirement Systems	33
Note J - Postretirement Health Care Benefits	39
Note K - Long-term Liabilities	39
Note L - Constitutional Officers	42
Note M - Conduit Debt Obligations	42
Note N - Interfund Receivables and Payables	43
Note O - Interfund Transfers	44
Note P - Joint Venture	44
Note Q - Risk Management	46



## **NOTES TO BASIC FINANCIAL STATEMENTS**

### **HAMILTON COUNTY, TENNESSEE JUNE 30, 2005**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Hamilton County, Tennessee (the County) was incorporated October 25, 1819, by the Tennessee State Legislature and operates under a legislative body – County Mayor form of government. The present form of government was established in 1978 by constitutional amendment.

The financial statements of the County have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.” This Statement provided for the most significant change in financial reporting in over twenty years and was scheduled for a phased implementation (based on size of government) starting with fiscal years ending after June 15, 2002. As a part of this Statement, there was a new reporting requirement regarding a local government’s infrastructure (streets, bridges, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation of the infrastructure-related portion to the fiscal year ending in 2006. The County implemented the basic model required by GASB Statement No. 34 and the related disclosure requirements required by GASB Statement No. 38 in 2002. The County implemented the infrastructure-related portion effective July 1, 2003.

#### **(1) REPORTING ENTITY**

In evaluating the County as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the County may be financially accountable and, as such, should be included within the County’s financial statements. The County (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the County. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Because of the closeness of their relationship with the primary government (the County), some component units are blended as though they are part of the primary government; however, most component units are discretely presented.



## **Discretely Presented Component Units**

**Hamilton County Department of Education** – The Hamilton County Department of Education provides public education for grades kindergarten through twelve. The nine-member board is currently comprised of elected members who appoint the superintendent. The Hamilton County Commission levies taxes for the operations of the school system and issues debt for all significant capital projects. The financial activities also include the operations of a centralized cafeteria system, school activity funds, capital projects, and an internal service fund. Additional information may be obtained from: Hamilton County Department of Education; 6703 Bonny Oaks Drive, Bldg. 200-1; Chattanooga, TN 37421.

**Emergency Communication District Board (911)** – The “911” Emergency Communication Board was approved by resolution of the Hamilton County Board of Commissioners after the passage of Chapter 867 of the 1984 Tennessee Public Acts which authorized Emergency Communications Districts. The nine-member board is appointed by the County Mayor, is approved by the Hamilton County Board of Commissioners, and is legally separate from Hamilton County. The Board of Commissioners must approve any bonds or indebtedness of the district. Complete financial statements may be obtained from: Hamilton County “911” Emergency Communication District, 2402 Amnicola Highway, Chattanooga, TN 37406.

**Hamilton County Water & Wastewater Treatment Authority** – The Water and Wastewater Treatment Authority (the Authority) was organized under the Water and Wastewater Treatment Authority Act of the State of Tennessee. The Authority began operations on July 1, 1994, for the purpose of providing wastewater treatment service to residents of unincorporated areas of Hamilton County, Tennessee. The five-member board is appointed by the Hamilton County Board of Commissioners from recommendations of the County Mayor and is legally separate. The Authority’s Board has final decision-making authority for the entity. The County Board of Commissioners does not approve the Authority’s budget, but they do finance debt for the Authority’s capital project. Complete financial statements may be obtained from: Water & Wastewater Treatment Authority, P.O. Box 8856, Chattanooga, TN 37414.

## **(2) JOINT VENTURES**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The County participates in the following joint venture:

**Carter Street Corporation** – The Carter Street Corporation manages the Trade Center and parking garage that were financed by Industrial Development Bonds. Further information, along with condensed financial information, can be found in Note P – Joint Venture.

**Related Organizations** – The following related organizations are excluded from the financial reporting entity because the County’s accountability for these organizations does not extend beyond making the appointments. Audited financial statements are available from the respective organizations.

**Soddy-Daisy/Falling Water Utility District** – This utility district is different from the other utility districts of Hamilton County because of the size of the area that it covers. Tennessee Code Annotated, Section 7-82-307(r)(1) & (2) provides for the appointment of seven members of which three members are recommended by the utility commission and the remaining four are appointed by the County Mayor. No other utility district within Hamilton County has a seven-member board. After the board appointments, neither a financial benefit nor a burden to the citizens of Hamilton County arises.

**Industrial Development Board of the County of Hamilton** – The Industrial Development Board of the County of Hamilton (the Corporation) is a corporation formed for the purpose of promoting and developing commercial, industrial, and manufacturing enterprise and encouraging employment within the boundaries of Hamilton County. The County Board of Commissioners appoints the eleven-member board. The Corporation is authorized and empowered to issue industrial development revenue bonds that do not constitute an indebtedness of Hamilton County, the State of Tennessee, or any political subdivision thereof. The County assumes no responsibility for the day-to-day operating expenses of the Corporation. Fees charged to applicants for funding finance such expenses.

**Chattanooga-Hamilton County Hospital Authority** – The County Mayor appoints, subject to the approval of the County Board of Commissioners, four members of the eleven-member Hospital Authority Board. The County is committed to fund a minimum of \$3,000,000 annually for indigent patient care to the Authority. The Authority has the ability to issue its own debt, which is not an obligation of the County, and primarily patient revenues finance its operations.

(3) **BASIC FINANCIAL STATEMENTS-GASB STATEMENT NO. 34**

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the County as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. At June 30, 2005, the County has no business-type activities in the primary government. In the government-wide Statement of Net Assets, the governmental activities (a) are presented on a consolidated basis in a single column and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, highways and streets, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. Program revenues include revenues from fines and forfeitures, licenses and permits fees, service assessments, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity.

This government-wide focus is designed to view the County as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major governmental funds. Non-major governmental funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the County's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statement. Operating revenues and expenses are the result of providing services to the principal user of the internal service. Any revenues or expenses that are not the result of providing those services are classified as nonoperating. Since the principal users of the internal services are the County's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (public safety, highways and streets, etc.).

The County's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The focus of the GASB Statement No. 34 model is on the County as a whole and the fund financial statements. The focus of the fund financial statements is on the major individual government funds as well as the fiduciary funds (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

#### **(4) BASIS OF PRESENTATION**

The financial transactions of the County are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by generic classification within the financial statements.

The GASB Statement No. 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and detailed in the combining section.

The County reports the following major funds and other fund types:

##### **a) Major Funds:**

**General Fund** – The General Fund is used to account for all revenues and expenditures applicable to the general operations of county government that are not properly accounted for in another fund. All general operating revenues that are not restricted or designated as to their use by outside sources are recorded in the General Fund. Revenues are derived primarily from taxes and intergovernmental revenues.

**Sheriff Fund** – The Sheriff Fund is used to account for all revenues and expenditures applicable to the operations of the Hamilton County Sheriff, an independently elected officer of Hamilton County. Revenues to fund the Sheriff's operations are primarily generated from appropriations by the Hamilton County General Fund, intergovernmental charges for maintaining State or Federal prisoners in the County Jail, and charges for services provided.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest, principal, and related costs of long-term liabilities of the Primary Government's governmental activities.

**Capital Projects Fund** – The Capital Projects Fund is used to account for resources designated to construct or acquire capital assets and major improvements. Revenues are derived primarily from the issuance of long-term liabilities, intergovernmental revenues, grants, and earnings on investments.

**b) Other Fund Types:**

**Special Revenue Funds** – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Internal Service Funds** – The Internal Service Fund accounts for the County’s self-insurance programs. The County is self-insured for unemployment compensation, on-the-job injury claims, property and liability claims, and losses due to liabilities arising under the laws of the state and federal governments. The costs for these programs are funded through premiums paid by the departments and agencies of the County.

**Pension Trust Funds** – The Pension Trust Funds account for assets held by the County as trustee. These funds are accounted for in the same manner as business enterprises providing similar services. Certain county employees hired prior to July 1, 1977, all current and future county commissioners, and certain county teachers who were employed prior to July 1, 1945 are covered by the Pension Trust Funds.

**Agency Funds** – Agency Funds are used to account for fiduciary assets held by the County in a custodial capacity as an agent on behalf of individuals and other government entities. The County's agency fund is used to account for various deposits, bail bonds, performance bonds, and pension trust funds.

**c) Non-Current Governmental Assets/Liabilities:**

GASB Statement No. 34 eliminated the presentation of Account Groups but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

**(5) BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary and Fiduciary Fund Financial Statements are presented on the accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on the modified accrual basis.

**Accrual** – Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual** – All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Major revenue sources susceptible to accrual include: grants, interest, sales and use taxes, hotel/motel taxes, property taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received.

The County defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be sixty days.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.



In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. The recipient should, under most circumstances, report resources transmitted before the eligibility requirements are met as advances by the provider and as deferred revenue.

**(6) BUDGET POLICY AND BUDGETARY DATA**

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

On or around June 1, the County Mayor submits to the Hamilton County Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted which allow for taxpayer comments.

Prior to July 1, the Board of Commissioners legally enacts a balanced budget through passage of a resolution.

The County Mayor is authorized to transfer budgeted amounts within divisions within any fund; however, any revisions that alter the total expenditures of any fund or transfer funds between divisions must be approved by the Board of Commissioners.

A legally enacted budget is employed as a management control device during the year for the following governmental funds: General Fund, certain special revenue funds (Sheriff and Juvenile Court Clerk) and the Debt Service Fund. Formal budgetary integration is not employed for the remaining Constitutional Officers due to the ability of management to closely monitor and control the transactions in the funds. The remaining special revenue funds are unbudgeted because effective control is maintained through the appropriation of revenues by the General Fund and through management’s observation of the limited transactions of these funds.

The budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. In addition, certain amounts included in the Debt Service Fund are not included in the budgetary amounts. Budgetary comparisons presented in the report are on this budgetary basis and do not include financial information of individual funds, which do not have budgets. Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of the fiscal year.

Encumbrances against budgeted appropriations are recorded during the year upon execution of purchase orders, contracts, or other appropriate documents. Amounts shown as encumbrances at June 30, 2005, reflect material expenditures for goods and services that had not been received or completed at that date. These items are recorded as reservations of fund balances and provide authority for the carryover of appropriations to the subsequent year in order to complete these transactions. Encumbrances are utilized in the General Fund, certain special revenue funds, the Capital Projects Fund, and the General Purpose School Fund, a component unit.

The various departments within the County are organized by function into separate divisions. The level at which expenditures may not legally exceed appropriations is the division level. All budget amounts included in these financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2005, several supplemental appropriations were necessary.

(7) **ASSETS, LIABILITIES, AND FUND EQUITY**

**a) Cash and Cash Equivalents**

The County considers cash and cash equivalents to include cash on hand, amounts due from banks, and interest-bearing deposits at various financial institutions.

**b) Investments**

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase and investments in the state investment pool, which is a 2a7-like pool. The fair value of the County's position in the state investment pool is the same as the value of the pool shares. The state investment pool is managed by the Treasurer of the State of Tennessee under the oversight of the Tennessee Comptroller's Office.

Any change in the value of investments recorded at fair value is included in investment earnings. Fair value is based on quoted market prices. Investments held in the County's investment pool accrue interest on a daily basis. The interest is allocated daily to the participating funds on a percentage of equity basis.

**c) Receivables**

Receivables were recorded in the Governmental, Proprietary, Fiduciary, and Component Unit Funds. Where appropriate, receivables are shown net of an allowance for uncollectible accounts.

**d) Inventories and Prepaid Items**

Inventories are valued at cost, which approximates market value using the first-in, first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The costs are recorded as expenditures at the time individual inventory items are used (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**e) Capital Assets**

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. The County maintains infrastructure asset records consistent with other capital assets. The County's threshold for additions to capital assets is \$5,000 in the primary government and \$5,000 for the Department of Education. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings	20 – 40 years
Improvements Other Than Buildings	20 – 30 years
Machinery and Equipment	5 – 20 years
Public Domain Infrastructure	10 – 50 years

GASB Statement No. 34 requires the reporting and depreciation of infrastructure expenditures. Beginning in the implementation year (July 1, 2001) new infrastructure expenditures have been capitalized and depreciated. Following the implementation of GASB No. 34, the County continued to expand and refine its capital assets. Effective July 1, 2003, the County recorded the infrastructure assets at estimated or actual historical cost, net of accumulated depreciation. Historically, the financial statements have not reflected this asset or the depreciation expense for the systematic allocation of its consumption. Infrastructure assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

#### **f) Fund Balance**

Reserved fund balance indicates that portion of fund equity that has been legally segregated for specific purposes. Designated fund balance indicates that portion of fund equity for which the County has made tentative plans.

#### **g) Pension Plans**

Substantially all County employees are eligible to participate in retirement benefit plans established by either the County or the State of Tennessee.

### **(8) REVENUES, EXPENDITURES, AND EXPENSES**

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred, except for the following instances permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported only when due.
- Inventory costs are reported in the period when inventory items are consumed rather than in the period purchased.

#### **a) Property Taxes**

Property taxes levied by the County are assessed by the Assessor of Property and collected by the Trustee, both of whom are elected officials of the County. Property tax revenues are recognized when they become measurable and available. "Available" means due or past due and receivable within the current period and collected no longer than 60 days after the close of the current period. Uncollected amounts not considered available are recorded as deferred revenues. Hamilton County has unlimited ability to levy ad valorem taxes.

The property tax calendar applicable to the current fiscal year is as follows:

Lien date	January 1, 2004
Levy date	January 1, 2004
Tax bills mailed	October 1, 2004
Payment due dates	October 1, 2004 through February 29, 2005
Delinquency date	March 1, 2005
Tax sale – 2001 delinquent property taxes	March 1, 2005

#### **b) Grant Revenue**

The County, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts if any) when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the County before the eligibility requirements are met are reported as deferred revenues.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the County.

#### **c) Investment Income**

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments.

#### **d) Interfund Transactions**

During the course of normal operations, the County has numerous transactions between funds to provide services, construct assets, service debt, etc. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if they involve organizations external to the County are treated as revenues in the receiving fund and expenditures in the disbursing fund.

Amounts owed to one fund or component unit by another are reported as due to/due from other funds or component units. Amounts reported in the fund financial statements as due to/due from other funds are eliminated in the governmental activities column of the government-wide Statement of Net Assets.

#### **e) Payments Between the County and Component Units**

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions – that is, as revenues and expenses. Payments from component units consist of debt service payments from “911” Emergency Communication for equipment purchased by the County.

#### **f) Indirect Costs**

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

#### **g) Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **h) Vacation Pay and Sick Leave**

County employees are paid for vacation and absence due to sickness by prescribed formula based on length of service. The liability for unpaid leave earned by employees, which may be used in subsequent years or paid upon termination or retirement, is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements.

### **(9) NET ASSETS**

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

**Invested in Capital Assets (net of related debt)** – is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding capital asset related debt.

**Restricted Net Assets** – represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The County’s policy is generally to use restricted net assets first, as appropriate opportunities arise.

**Unrestricted Net Assets** – represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the County has the unrestricted authority to revisit or alter these managerial decisions.



## NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Compliance with Finance Related Legal and Contractual Provisions

The County incurred no material violations of finance related legal and contractual provisions.

### Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2005, the County had no material excess of expenditures over appropriations in individual funds.

### Net Assets/Fund Balance Deficit

At June 30, 2005, the County has a deficit of \$59,663,380 in unrestricted net assets in the government-wide statement of net assets for governmental activities. This deficit results from the specific reporting requirements of the GASB Statement No. 34 reporting model. The County's government-wide financial statements include the liability for all general obligation bonds. Historically, significant portions of the County's general obligation bonds are issued to acquire, construct, and develop facilities for the Department of Education. These facilities are not recorded as capital assets of the County's governmental activities but are recorded as capital assets of the Department of Education, which is a discretely presented component unit. At June 30, 2005, the County's long-term liabilities include general obligation bonds of \$85,673,437 issued for the Department of Education capital projects.

## NOTE C – CASH AND INVESTMENTS

Effective June 30, 2003, the County implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." This statement eliminated or modified portions of the disclosures previously required by GASB Statement No. 3. GASB Statement No. 40 is designed to improve financial reporting of deposit and investment risks.

At June 30, 2005, investments of the primary government (except for Pension Trust Funds) and component units consist of the following:

	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>
Primary Government – Governmental Activities:		
U.S. Government agency securities	1.13	\$ 26,856,275
Investment in local investment pool	0.00	63,751,435
Investment in state investment pool	0.00	3,337
Cash balances classified as investments	<u>0.00</u>	<u>4,138,622</u>
Total	<u>0.11</u>	\$ <u>94,749,669</u>
Primary Government – Agency Funds:		
U.S. Government agency securities	1.13	\$ 102,734
Investment in local investment pool	<u>0.00</u>	<u>140,766</u>
Total	<u>0.18</u>	\$ <u>243,500</u>
Component Units:		
U.S. Government agency securities	1.13	\$ 13,040,991
Investment in local investment pool	0.00	15,560,076
Investment in state investment pool	<u>0.00</u>	<u>2,308,794</u>
Total	<u>0.12</u>	\$ <u>30,909,861</u>

**Interest rate risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the County purchases investments with maturities of two years or less. The County presents its exposure to interest rate changes using the weighted average maturity method. The County manages its interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year. The County's policies limit exposure to interest rate risk by requiring sufficient liquidity in the investment portfolio. The County's investment portfolio did not experience any significant fluctuations in fair value during the year.

**Custodial credit risk** – The County’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the County’s agent in the County’s name, or by the Federal Reserve Banks acting as third party agents. The statutes also authorize the types of investments in which the County can participate. The portfolio manager may invest in any instruments which are in accordance with applicable laws, including but not limited to the following: certificates of deposit and savings accounts in banks and savings and loan institutions; Tennessee Valley Authority Bonds; bonds, notes, or treasury bills of the United States; Federal Land Bank bonds; Federal Home Loan Bank notes and bonds; Federal National Mortgage Association notes and debentures, banks for cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States; the pooled investment fund of the State of Tennessee; or repurchase agreements.

**Credit risk** – The County’s policies are designed to maximize investment earnings while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. At June 30, 2005, the County’s investment in U.S. Government agency securities include Federal Home Loan Bank and Federal National Mortgage Association bonds, which were rated AAA by Moody’s Investor Service. The County also invests in the state investment pool, which is a 2a7-like pool. The state investment pool is not rated.

**Pension Trust funds** – The County’s Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net assets. The Pension Trust funds are managed with long-term objectives that include maximizing total investment earnings. State statutes and County policies allow the Pension Trust funds a broader range of investments than other County investments. The credit risk of investments of the Pension Trust funds is summarized as follows:

	<b><u>Moody’s Rating</u></b>	<b><u>Fair Value</u></b>
U.S. Government agency securities	AAA	\$ 220,468
Domestic corporate bonds	A1	25,762
Domestic corporate bonds	A2	50,747
Domestic corporate bonds	AA3	25,562
Domestic corporate bonds	BAA1	53,894
Domestic corporate bonds	BAA2	30,762
Pooled investments	Not rated	704,350
Money Market	Not rated	12,331
Domestic equity securities	Not rated	<u>1,252,539</u>
		<b><u>\$ 2,376,415</u></b>

#### **Note D – Receivables**

Receivables at June 30, 2005, consist of the following:

<b><u>Funds</u></b>	<b><u>Property Taxes</u></b>	<b><u>Patients</u></b>	<b><u>Accounts</u></b>	<b><u>Inter-Governmental</u></b>	<b><u>Allowance for Uncollectibles</u></b>	<b><u>Net</u></b>
Primary Government:						
General	\$90,845,029	\$3,680,908	\$ 940,489	\$ 5,927,968	\$ 1,138,320	\$100,256,074
Sheriff	-	-	55,859	799,682	-	855,541
Debt service	-	-	35,582	675,274	-	710,856
Capital projects	-	-	907,749	1,292,345	-	2,200,094
Nonmajor	-	-	<u>580,794</u>	<u>242,823</u>	-	<u>823,617</u>
	<b><u>\$90,845,029</u></b>	<b><u>\$3,680,908</u></b>	<b><u>\$ 2,520,473</u></b>	<b><u>\$ 8,938,092</u></b>	<b><u>\$ 1,138,320</u></b>	<b><u>\$104,846,182</u></b>
Component Units:						
Governmental	\$112,326,846	\$ -	\$ 662,832	\$ 14,196,268	\$ 352,511	\$126,833,435
Proprietary	-	-	<u>1,302,175</u>	-	-	<u>1,302,175</u>
	<b><u>\$112,326,846</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,965,007</u></b>	<b><u>\$ 14,196,268</u></b>	<b><u>\$ 352,511</u></b>	<b><u>\$128,135,610</u></b>

Property tax receivables include uncollected taxes from the past seven years' levies plus the anticipated levy for the current calendar year. Taxes uncollected after that time are written off, and the property is ultimately sold through a back tax property sale. The allowance for uncollectible tax is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2005.

Patient accounts receivable represent uncollected revenues for services rendered. Ambulance patient accounts that are uncollected after 120 days are considered doubtful and ultimately written off as uncollectible. All other accounts are considered doubtful after a reasonable effort has been made to collect.

#### **NOTE E – SOLID WASTE DISPOSAL POST CLOSURE CARE COSTS**

The County utilizes the General Fund to account for post closure care costs of the Hamilton County Birchwood Landfill Area 1 and the TVA Model Landfill. The County completed closure of both Area 1 and the TVA Model Landfill in 2001. In accordance with state and federal regulations, the County is required to perform certain maintenance and monitoring functions for thirty years after closure. The estimated liability for post closure care costs of \$270,000 at June 30, 2005, is based on the use of 100% of capacity of both landfill areas. The estimated total current cost of the post closure care of \$270,000 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2005. However, the actual cost of closure and post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in post closure requirements will be covered by appropriations in the General Fund.

#### **NOTE F – COMMITMENTS AND CONTINGENCIES**

The County is a party to various legal proceedings. At the date of these financial statements, the County cannot estimate its liability, if any, from losses that may result from certain proceedings. In the opinion of management and the County attorneys, the potential adverse impact of these proceedings would not be material to the combined financial statements of the County.

The County has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. County management is not aware of any potential losses from such disallowance and believes that reimbursements, if any, would not be material.

The County has entered into various construction commitments. Such contracts include contracts for improvements to schools, industrial parks, jails, and other facilities related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2005. The total contractual commitments outstanding as of June 30, 2005, aggregated approximately \$9,685,726. The County has sufficient funds available to cover these commitments.

#### **NOTE G – HAMILTON COUNTY NURSING HOME**

The Hamilton County Nursing Home was a licensed nursing home facility providing five levels of care to the citizens of Hamilton County. The Nursing Home was sold to National Healthcare Corporation (NHC) on January 1, 2000. The residual activities that are the responsibility of Hamilton County are reported in a Special Revenue Fund.

The remaining portion of the purchase price, \$2,000,000, was paid by NHC to the County on January 1, 2005. The County expects no further activity in this Special Revenue Fund.

**NOTE H – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, is as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 65,847,538	\$ 3,905,000	\$ (1,826,373)	\$ 67,926,165
Construction in progress	<u>30,068,497</u>	<u>14,459,114</u>	<u>(24,553,736)</u>	<u>19,973,875</u>
Total non-depreciable assets	<u>95,916,035</u>	<u>18,364,114</u>	<u>(26,380,109)</u>	<u>87,900,040</u>
Depreciable Assets:				
Buildings	92,796,615	1,347,654	-	94,144,269
Improvements other than buildings	18,090,552	2,544,990	-	20,635,542
Machinery and equipment	34,129,440	2,950,887	(2,478,376)	34,601,951
Infrastructure	<u>144,679,577</u>	<u>-</u>	<u>-</u>	<u>144,679,577</u>
Total depreciable assets	<u>289,696,184</u>	<u>6,843,531</u>	<u>(2,478,376)</u>	<u>294,061,339</u>
Less Accumulated Depreciation for:				
Buildings	(41,341,570)	(2,337,545)	-	(43,679,115)
Improvements other than buildings	(3,392,288)	(938,668)	-	(4,330,956)
Machinery and equipment	(24,716,755)	(3,203,234)	1,635,575	(26,284,414)
Infrastructure	<u>(85,774,190)</u>	<u>(3,616,989)</u>	<u>-</u>	<u>(89,391,179)</u>
Total accumulated depreciation	<u>(155,224,803)</u>	<u>(10,096,436)</u>	<u>1,635,575</u>	<u>(163,685,664)</u>
Depreciable Assets, net	<u>134,471,381</u>	<u>(3,252,905)</u>	<u>(842,801)</u>	<u>130,375,675</u>
Governmental activities capital assets, net	<u>\$230,387,416</u>	<u>\$15,111,209</u>	<u>\$(27,222,910)</u>	<u>\$218,275,715</u>

**Discretely Presented Component Units**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
Non-Depreciable Assets:				
Land	\$ 14,542,675	\$ 522,000	\$ -	\$ 15,064,675
Construction in progress	<u>1,568,202</u>	<u>328,708</u>	<u>(522,406)</u>	<u>1,374,504</u>
Total non-depreciable assets	<u>16,110,877</u>	<u>850,708</u>	<u>(522,406)</u>	<u>16,439,179</u>
Depreciable Assets:				
Buildings	279,582,230	24,664,659	-	304,246,889
Improvements other than buildings	21,219,230	496,250	(5,650)	21,709,830
Machinery and equipment	19,918,639	4,329,139	(1,647,887)	22,599,891
Utility plant	<u>60,400,471</u>	<u>5,694,998</u>	<u>-</u>	<u>66,095,469</u>
Total depreciable assets	<u>381,120,570</u>	<u>35,185,046</u>	<u>(1,653,537)</u>	<u>414,652,079</u>
Less Accumulated Depreciation for:				
Buildings	(135,479,875)	(4,984,444)	-	(140,464,319)
Improvements other than buildings	(14,797,261)	(337,433)	753	(15,133,941)
Machinery and equipment	(11,677,315)	(1,805,167)	1,173,051	(12,309,431)
Utility plant	<u>(5,683,882)</u>	<u>(1,788,420)</u>	<u>-</u>	<u>(7,472,302)</u>
Total accumulated depreciation	<u>(167,638,333)</u>	<u>(8,915,464)</u>	<u>1,173,804</u>	<u>(175,379,993)</u>
Depreciable Assets, net	<u>213,482,237</u>	<u>26,269,582</u>	<u>(479,733)</u>	<u>239,272,086</u>
Component units capital assets, net	<u>\$229,593,114</u>	<u>\$26,597,884</u>	<u>\$(1,002,139)</u>	<u>\$255,711,265</u>



Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:

Ambulance	\$ 312,703
Criminal Court	291,253
General Government	1,292,668
Health	284,369
Highway	4,479,277
Juvenile Court	162,919
Public Safety	969,959
Recreation	1,117,026
Sheriff	1,150,113
Social Services	36,149
Total	<u>\$10,096,436</u>

Discretely Presented Component Units:

Education	\$ 6,329,394
Water & wastewater treatment	1,898,036
"911" Emergency communications	688,034
Total	<u>\$ 8,915,464</u>

**NOTE I – EMPLOYEE RETIREMENT SYSTEMS**

Hamilton County provides retirement benefits through five pension plans. The majority of employees participate in two retirement plans provided by the Tennessee Consolidated Retirement System (TCRS). One of the TCRS plans is the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit plan which is available for all County employees except teachers. The other TCRS plan, the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), is available to teachers of the Hamilton County School system. It is a cost sharing, multiple-employer, defined benefit pension plan in which most teachers participate.

The remaining employees who are eligible for retirement benefits participate in three single-employer, defined benefit pension plans (Employees' Retirement Plan, Commissioners' Retirement Plan, and Teachers' Retirement Plan). The County acts as Trustee for these plans.

The following is a summary of each of these plans:

**Tennessee Consolidated Retirement Systems**

**(1) Political Subdivision Pension Plan (PSPP)**

**Plan Description:**

Employees of Hamilton County are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hamilton County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us/tcrs/PS/](http://www.treasury.state.tn.us/tcrs/PS/).

#### **Funding Policy:**

Hamilton County adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Hamilton County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2005, was 11.45% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamilton County is established and may be amended by the TCRS Board of Trustees.

#### **Annual Pension Cost:**

For the year ending June 30, 2005, Hamilton County's annual pension cost of \$10,027,369 to TCRS was equal to Hamilton County's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent per year compounded annually; (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries); (c) projected 3.5 percent annual increase in the social security wage base; and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Hamilton County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was fourteen years. An actuarial valuation was performed as of July 1, 2003, which established contribution rates effective July 1, 2004.

#### **Trend Information:**

Fiscal Year <u>Ended</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/05	\$10,027,369	100.00%	\$ -
6/30/04	7,600,075	100.00%	-
6/30/03	7,437,867	100.00%	-

### **(2) State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP)**

#### **Plan Description:**

The Hamilton County Schools contribute to the SETHEEPP, a cost sharing, multiple-employer defined benefit pension plan administered by the TCRS. TCRS provides retirement as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with thirty years of service. A reduced benefit is available to vested members who are at least age 55 or have twenty-five years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at 3 percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

### **Funding Policy:**

Most teachers are required by state statute to contribute 5 percent of salary to the plan. The employer contribution rate for Hamilton County Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2005, was 5.50% of annual covered payroll. The employer contribution requirement for Hamilton County Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the year ending June 30, 2005, 2004, and 2003, were \$13,850,969, \$11,325,694 and \$10,942,201, respectively, equal to the required contribution for each year.

## **Hamilton County Administered Plans**

### **Significant Accounting Policies:**

#### **Basis of Accounting**

The financial statements of the Employees', Commissioners', and Teachers' Retirement Funds are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized when due, and the County has made a formal commitment to provide the contribution. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

#### **Method Used to Value Investments**

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. There are no investments in any one organization that represent 5 percent or more of plan net assets.

### **Plan Description and Provisions:**

#### **(1) Employees' Pension Plan**

The County maintains a closed, single-employer defined benefit pension plan for employees who elected to continue in this plan when it closed to new enrollment in 1977.

The plan is designed for each participant to contribute 6.4 percent of the first \$800 of monthly salary toward the cost of the plan; in practice, the County contributes these amounts on behalf of the participants. A participant whose service terminates prior to eligibility for normal retirement (and who is not disabled) is entitled only to a return of the employee contribution made by him or on his behalf.

The normal retirement benefit is 50 percent of the employee's final average earnings, where final average earnings are based on the four-year period of service, which yields the highest arithmetic average of basic salary not in excess of \$800 per month. For employees hired prior to April 15, 1969, normal retirement date is the earlier of (1) completion of twenty-four years of credited service or (2) completion of twenty years of credited service and attainment of age 55. For employees hired thereafter, normal retirement date is the attainment of age 65 and completion of twenty-four years of credited service. In the event of total and permanent disability, participants who are not yet eligible for normal retirement benefits can receive a percentage of their final average earnings, based on their years of credited service at the time of disability. Benefit provisions are established and amended by the Private Acts of Tennessee.

#### **(2) Commissioners' Pension Plan**

The County maintains a single-employer defined benefit plan for County Commissioners in which each Commissioner can elect to participate. Those who elect to participate are not required to contribute to the plan. Contributions previously made were refunded to plan participants. Credit for prior service can be purchased. There are no limits on the time at which a Commissioner (or former Commissioner with at least five years of service) can elect to purchase such credit.

Each participant accrues a monthly benefit of 2.5% of five-year average pay per year of credit service, payable upon retirement at or after age 55. Accrued benefits are vested after five years of service. Benefit provisions are established and amended by the Private Acts of Tennessee.

### (3) Teachers' Pension Plan

The County maintains a closed, single-employer defined benefit plan for a group of teachers who are receiving as annuities amounts arising from the refund of their contributions to an earlier plan. Although these annuity payments could be discontinued at any time, they have been extended throughout the lifetime of the remaining plan participants. The amount of the monthly pension benefit received by each participant has been previously determined.

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Retirees and beneficiaries receiving benefits	40	9	19
Vested terminated employees	0	3	0
Active employees:			
Fully vested	0	5	0
Non vested	0	4	0
Actuarial valuation date	June 30, 2005	June 30, 2005	June 30, 2005

### Funding Policy and Other Information:

Hamilton County contributes to each plan at an actuarially determined rate. Administrative costs are financed through contributions and investment earnings. The annual required contributions, actual contributions, and other pertinent information for each plan for the year ending June 30, 2005 are shown in the following table:

	<u>County Administered Retirement Plans</u>		
	<u>Employees'</u>	<u>Commissioners'</u>	<u>Teachers'</u>
Contribution authorization:	Private Acts of TN	Private Acts of TN	Pension Board
How contributions are determined:	Actuarially	Actuarially	Actuarially
Required contribution rate:			
Active employees	6.4%	N/A	N/A
Employer	-	\$ 60,000	\$ 8,353
Other contributing entities	N/A	N/A	\$ 36,479
Actual contributions:			
Employees	-	-	-
Employer	-	\$ 60,000	\$ 8,353
Other contributing entities	N/A	N/A	\$ 36,479
Date of last actuarial valuation	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial valuation date for current contributions	June 30, 2005	June 30, 2005	June 30, 2005
Actual assumptions:			
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Method for actuarial value of assets	Market Value	Market Value	Market Value
Inflation rate	N/A	N/A	N/A
Investment return	7.5%	6.0%	5.0%
Projected salary increases	N/A	4.0%	N/A
Amortization:			
Method	Level Dollar	Level Dollar	Level Dollar
Period	40 years open	5-10 years open	40 years open



**Annual Pension Cost:**

For the year ended June 30, 2005, the County's actual contributions exceeded the annual pension cost for the Teachers' Pension Plan. No employer contributions were made for the Employees' and Commissioners' Pension Plans.

The County's annual pension cost and net pension obligation (asset) related to the General Pension Plans for the current year were as follows:

	<u>Employees'</u> <u>Pension Plan</u>	<u>Commissioners'</u> <u>Pension Plan</u>	<u>Teachers'</u> <u>Pension Plan</u>
Annual required contribution	\$ -	\$ 27,317	\$ 928
Interest on net pension obligation (asset)	(26,655)	(1,672)	(58,877)
Adjustment to annual required contribution	<u>28,219</u>	<u>1,852</u>	<u>68,625</u>
Annual pension cost	1,564	27,497	10,676
Contributions made	<u>-</u>	<u>(60,000)</u>	<u>(8,353)</u>
Increase in net pension obligation (asset)	1,564	(32,503)	2,323
Net pension obligation (asset) at beginning of year	<u>(355,397)</u>	<u>(27,873)</u>	<u>(1,177,536)</u>
Net pension obligation (asset) at end of year	\$ <u>(353,833)</u>	\$ <u>(60,376)</u>	\$ <u>(1,175,213)</u>

**Trend Information:**

	<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u> <u>(Asset)</u>
Employees' Plan:	6/30/05	\$ 1,564	0.0%	\$ (353,833)
	6/30/04	1,570	0.0%	(355,397)
	6/30/03	1,578	0.0%	(356,967)
Commissioners' Plan:	6/30/05	27,497	218.2%	(60,376)
	6/30/04	27,643	18.4%	(27,873)
	6/30/03	1,530	0.0%	(50,440)
Teachers' Plan:	6/30/05	10,676	78.2%	(1,175,213)
	6/30/04	10,695	78.1%	(1,177,536)
	6/30/03	12,808	455.7%	(1,179,878)

**Financial Reports:**

The Hamilton County administered plans do not issue stand-alone financial reports and are not included in the report of a public employee retirement system or a report of another entity. The plans' financial statements are as follows:

# **COMBINING STATEMENT OF PLAN NET ASSETS**

	Employees' <u>Pension</u>	Commissioners' <u>Pension</u>	Teachers' <u>Pension</u>	Total Pension Trust <u>Funds</u>
<b>ASSETS</b>				
Cash	\$ -	\$ 325,113	\$ 3,765	\$ 328,878
Certificate of deposit	-	-	148,702	148,702
Investments, at fair value:				
Government bonds	220,468	-	-	220,468
Fixed income – common funds	704,350	-	-	704,350
Money Market	12,331	-	-	12,331
Domestic corporate bonds	186,727	-	-	186,727
Domestic equity securities	<u>1,252,539</u>	<u>-</u>	<u>-</u>	<u>1,252,539</u>
Total investments	<u>2,376,415</u>	<u>-</u>	<u>-</u>	<u>2,376,415</u>
Due from others	-	-	-	-
Interest receivable	<u>8,509</u>	<u>-</u>	<u>108</u>	<u>8,617</u>
Total receivable	<u>8,509</u>	<u>-</u>	<u>108</u>	<u>8,617</u>
Total assets	<u>2,384,924</u>	<u>325,113</u>	<u>152,575</u>	<u>2,862,612</u>
<b>LIABILITIES</b>				
Accrued item and other	-	-	1,280	1,280
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>1,280</u>	<u>1,280</u>
<b>NET ASSETS</b>				
Held in trust for pension benefits	\$ <u>2,384,924</u>	\$ <u>325,113</u>	\$ <u>151,295</u>	\$ <u>2,861,332</u>

# **COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**

	Employees' <u>Pension</u>	Commissioners' <u>Pension</u>	Teachers' <u>Pension</u>	Total Pension Trust <u>Fund</u>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ -	\$ 60,000	\$ 8,353	\$ 68,353
Members	<u>-</u>	<u>-</u>	<u>36,479</u>	<u>36,479</u>
Total contributions	<u>-</u>	<u>60,000</u>	<u>44,832</u>	<u>104,832</u>
Investment earnings:				
Net increase (decrease) in fair value of investments	1,357	(765)	-	592
Interest	<u>57,464</u>	<u>5,708</u>	<u>3,264</u>	<u>66,436</u>
Net investment income (loss)	<u>58,821</u>	<u>4,943</u>	<u>3,264</u>	<u>67,028</u>
Total additions	<u>58,821</u>	<u>64,943</u>	<u>48,096</u>	<u>171,860</u>
<b>DEDUCTIONS</b>				
Benefits	178,508	37,744	75,894	292,146
Administrative expense	<u>17,727</u>	<u>-</u>	<u>-</u>	<u>17,727</u>
Total deductions	<u>196,235</u>	<u>37,744</u>	<u>75,894</u>	<u>309,873</u>
Change in net assets	(137,414)	27,199	(27,798)	(138,013)
Net assets, beginning		<u>2,517,053</u>	<u>303,199</u>	<u>179,093</u>
<u>2,999,345</u>				
Net assets, ending	\$ <u>2,379,639</u>	\$ <u>330,398</u>	\$ <u>151,295</u>	\$ <u>2,861,332</u>

## NOTE J – POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County provides a portion of the health care benefits for certain retired employees. Employees who have retired under one of the County's retirement plans and who are ineligible for Medicare can elect to continue their health care coverage until they become eligible for Medicare. The County recognizes the actual cost of these benefits as expenditures as the claims are paid. The County is reimbursed by the retirees using a formula based on date of retirement, years of service, and the County's computed cost for active employees. During the fiscal year ended June 30, 2005, the County provided these health care benefits to 104 retirees at a cost of \$437,390.

## NOTE K – LONG-TERM LIABILITIES

Long-term liabilities, which consist of serially maturing general obligation bonds, compensated absences, arbitrage rebate, and certain notes to be repaid by the County, are summarized in the following sections:

**General Obligation Bonds** – Hamilton County periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the County. These bonds are generally issued as 15- to 30- year serial bonds with the 15-year term being prevalent for the last few years. General obligation bonds are summarized by issue as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Amount Due Within One Year</u>
General Improvement, Series 1996	5.0 – 5.1%	\$ 1,476,555	\$ 745,390
School, Series 1996	5.0 – 5.1%	1,118,445	564,610
General Improvement, Series 1997	5.0 – 5.125%	1,086,195	155,328
School, Series 1997	5.0 – 5.125%	23,633,805	3,379,672
General Improvement, Series 1998-A	4.5 – 5.0%	9,587,367	1,065,263
School, Series 1998-A	4.5 – 5.0%	1,797,633	199,737
General Improvement, Series 1998-B	4.3 – 5.1%	5,930,000	180,000
General Improvement, Series 2000	5.0 – 5.3%	6,603,113	600,283
School, Series 2000	5.0 – 5.3%	32,281,887	2,934,717
General Improvement, Series 2002	4.0%	5,525,000	1,460,000
School, Series 2002	4.0%	16,575,000	4,380,000
General Improvement Series 2004	4.0 – 5.00%	17,733,333	1,266,667
School, Series 2004	4.0 – 5.00%	10,266,667	733,333
Water & Wastewater Treatment Authority, Series 2004	4.0 – 5.00%	<u>9,765,000</u>	<u>205,000</u>
Total payable from the Debt Service Fund		<u>\$143,380,000</u>	<u>\$17,870,000</u>

**Note Payable and Other Debt** – The County entered into a Loan Agreement (the “Agreement”) with the Public Building Authority of the County of Montgomery, Tennessee (the “Authority”) on February 2, 1996. This Agreement reserved funds for the County in the amount of \$9,500,000 (the “Loan”) from the proceeds of the Authority's Adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1995. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 15-year term in certain amounts and on certain dates as specified in the Agreement and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. As of June 30, 2005, the County has withdrawn \$9,500,000 of the Funds reserved to fund certain public work projects and the incidental and necessary expenses related thereto. At June 30, 2005, the balance due per the Agreement was \$4,727,900, of which \$686,400 is due within one year.

The County entered into another Loan Agreement (the “Agreement”) with the Public Building Authority of the County of Montgomery, Tennessee (the “Authority”) on February 17, 1999. This Agreement reserves funds for the County in the amount of \$9,000,000 (the “Loan”) from the proceeds of the Authority’s adjustable Rate Pooled Financing Revenue Bonds (Tennessee County Loan Pool), Series 1997. The County is obligated under the Agreement to repay the Loan in installments consisting of (i) principal repayments payable annually for a 14-year term in certain amounts and on certain dates as specified in the Agreement, and (ii) interest and certain expenses calculated and billed at the rate or rates and on the date or dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. As of June 30, 2005, the County has withdrawn \$8,998,350 of the Funds reserved to fund certain public works projects and the incidental and necessary expenses related thereto. At June 30, 2005, the balance due per the Agreement was \$6,335,000, of which \$599,000 is due within one year.

The County has a long-term Agreement with the Corrections Corporation of America (“CCA”) for the management of the Hamilton County Penal Farm. This Agreement requires the County to pay CCA \$267,005 annually through 2013. The County’s obligation under this Agreement is a direct general obligation of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for its payment. At June 30, 2005, the County’s remaining obligation for this Agreement was \$2,219,480, of which \$267,005 is due within one year.

The County has entered into Agreements with certain municipalities within Hamilton County to fund a portion of the municipalities’ debt obligations. These Agreements include obligations to the City of Chattanooga for the University of Tennessee at Chattanooga Stadium project, the Memorial Auditorium project, and the Bessie Smith Hall project. The County also has an Agreement with the City of East Ridge for the Camp Jordan Park project. These Agreements represent direct general obligations of the County and as such, the full faith, credit, and taxing power of the County are irrevocably pledged for these payments. At June 30, 2005, the County’s remaining obligations to the City of Chattanooga total \$4,702,500, of which \$535,000 is due within one year. Remaining obligations to the City of East Ridge total \$315,000, of which \$70,000 is due within one year.

The County entered into a Loan Agreement (the “Agreement”) with the Tennessee State School Bond Authority (the “Authority”), pursuant to TCA Sections 49-3-1202 et seq. as amended (the “Act”) December 20, 2003. This Agreement reserves funds for the County in the amount of \$1,365,000 (the Loan) from the proceeds of the Authority’s Qualified Zone Academy Bonds (the “Bonds”), Series 2003. The County is obligated under the Agreement to repay the Loan in installments consisting of principal and administrative expenses payable annually for a 15-year term in certain amounts and on certain dates as specified in the Agreement. The Loan is a direct general obligation of the County and as such, the full faith, credit and taxing power of the County are irrevocably pledged for its repayment. For the purpose of providing funds to finance the cost of the Projects, including the payment of legal and fiscal cost incident to the issuance and sale of the Bonds and the Loan Agreement and making and receiving the loan from the Authority, the Hamilton County Board of Education, on behalf of the County, shall make annual payments of principal in amounts equal to approximately level debt service payable in the years 2004 through 2018. The loan shall not bear interest. As of June 30, 2005, the County has withdrawn \$1,361,000 of the funds reserved. At June 30, 2005, the County’s remaining obligation was \$1,270,267, of which \$90,733 is due within one year.

**Arbitrage Rebate** – In accordance with the Tax Reform Act of 1986, state and local governments are required to refund according to a prescribed formula any arbitrage from investing the proceeds of tax-exempt debt issues. Specifically, the Tax Reform Act of 1986, the Technical and Miscellaneous Revenue Act of 1988, the Revenue Reconciliation Act of 1989, and the Revenue Reconciliation Act of 1990 provide for an arbitrage “rebate” of 100% of amounts earned in excess of the effective rate of the debt issued for most governments. The County has elected to retain arbitrage rebates and remit payments to the federal government every five years. As of June 30, 2005, the County had no current arbitrage rebate liabilities on any of its General Obligation Bonds. The current liabilities, if any, are recorded in the Capital Projects Fund.

**Annual Debt Service Requirements to Maturity** for General Obligation Bonds and Notes Payable and Other Debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds:		
2006	\$ 17,870,000	\$ 6,388,583
2007	17,780,000	5,652,264
2008	16,425,000	4,793,315
2009	13,180,000	4,123,415
2010-2014	49,320,000	12,211,694
2015-2019	19,945,000	4,048,961
2020-2024	3,650,000	1,712,304
2025-2029	2,560,000	928,005
2030-2034	<u>2,650,000</u>	<u>381,299</u>
	<u>\$ 143,380,000</u>	<u>\$ 40,239,840</u>

Notes Payable and Other Debt:		
2006	2,248,138	358,422
2007	2,332,338	311,866
2008	2,340,469	264,593
2009	2,259,238	218,998
2010-2014	9,063,794	596,446
2015-2019	<u>1,326,170</u>	<u>39,390</u>
	<u>\$ 19,570,147</u>	<u>\$ 1,789,715</u>

**Changes in Long-term Liabilities** – During the year ended June 30, 2005, the following changes occurred in long-term liabilities:

	<u>Balance July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30</u>	<u>Due Within One Year</u>
Primary Government-Governmental Activities					
General obligation bonds	\$162,040,000	\$ -	\$ 18,660,000	\$143,380,000	\$ 17,870,000
Notes payable and other debt	20,975,624	769,711	2,175,188	19,570,147	2,248,138
Landfill post closure costs	280,000	-	10,000	270,000	10,000
Compensated absences	<u>12,075,733</u>	<u>4,920,379</u>	<u>4,786,176</u>	<u>12,209,936</u>	<u>2,393,087</u>
	<u>\$195,371,357</u>	<u>\$5,690,090</u>	<u>\$ 25,631,364</u>	175,430,083	<u>\$ 22,521,225</u>
Net deferred premiums				<u>1,592,334</u>	
				<u>\$177,022,417</u>	
Component Units:					
Long-term advance due to					
primary government	\$ 17,091,289	\$ 591,787	\$ 235,000	\$ 17,448,076	\$ 708,484
Notes payable and other debt	13,546,959	1,518,797	1,230,675	13,835,081	971,287
Compensated absences	<u>14,052,374</u>	<u>-</u>	<u>510,442</u>	<u>13,541,932</u>	<u>2,402,956</u>
	<u>\$ 44,690,622</u>	<u>\$ 2,110,584</u>	<u>\$ 1,976,117</u>	<u>\$ 44,825,089</u>	<u>\$ 4,082,727</u>

Debt service requirements for general obligation bonds, notes payable and other debt are met by the General Fund, Hotel/Motel Fund, and intergovernmental funds received directly by the Debt Service Fund. Compensated absences are liquidated by the General Fund and Special Revenue Funds.

Total additions in Long-Term Liabilities of Governmental Activities above are different than total proceeds from bonds and notes in the accompanying financial statements. The differences are due to original issue discounts and premiums on bonds, the accrual of construction draws on certain projects in the Capital Projects Fund and compensated absences earned during the year.



Total reductions in Long-Term Liabilities for Governmental Activities above exceed principal retirement expenditures in the Debt Service Fund by the amount of Hotel/Motel taxes that are used to reduce the County's obligations to other municipalities (\$218,960 in 2005), landfill post-closure care costs paid from the General Fund and compensated absences used during the year.

**Defeased Bonds** – The County has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. On June 30, 2005, \$14,000,000 of bonds outstanding is considered defeased.

#### **NOTE L – CONSTITUTIONAL OFFICERS**

Certain operating expenditures of the Constitutional Officers for the year ended June 30, 2005, which are budgeted and included within the General Fund, are summarized as follows:

	Compensation and Fringe <u>Benefits</u>	Purchased <u>Services</u>	Capital <u>Outlay</u>	<u>Total</u>
Circuit Court Clerk	\$ 591,037	\$ 279,574	\$ 6,151	\$ 876,762
Clerk and Master	420,398	157,419	11,201	589,018
County Clerk	1,009,859	232,983	24,491	1,267,333
Criminal Court Clerk	832,988	118,224	3,695	954,907
Juvenile Court Clerk	-	-	36,507	36,507
Register	255,055	73,374	-	328,429
Sheriff	-	-	627,386	627,386
Trustee	216,161	62,763	4,905	283,829
Election Commission	1,099,867	418,377	19,243	1,537,487
Assessor of property	<u>2,499,554</u>	<u>328,877</u>	<u>50,803</u>	<u>2,879,234</u>
	<u>\$ 6,924,919</u>	<u>\$ 1,671,591</u>	<u>\$ 784,382</u>	<u>\$ 9,380,892</u>

#### **NOTE M – CONDUIT DEBT OBLIGATION**

From time to time, Hamilton County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial commercial facilities deemed to be in the public interest and Single Family Mortgage Revenue Bonds to provide assistance to potential homeowners pursuant to the Tennessee Home Mortgage Finance Act. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity or homeowner served by the bond issuance. Neither Hamilton County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2005, there were a total of 63 series outstanding (61 series of Industrial Revenue Bonds and 2 series of Mortgage Revenue Bonds). The aggregate principal amount payable for 5 Industrial Revenue Bond series issued after July 1, 1995, was \$16,295,000.

The aggregate principal amount for the remaining series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$234,756,196.

**NOTE N – INTERFUND RECEIVABLES AND PAYABLES**

During the course of normal operations, the County has numerous transactions between funds. Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Interfund receivables/payables are transactions reimbursing a fund for expenditures made for the benefit of another fund. Such transactions are recorded as expenditures and an interfund payable in the receiving fund. Such transactions are recorded as an interfund receivable in the disbursing fund. On the governmental funds balance sheet, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated on the statement of net assets.

<u>Receivable Primary Government</u>	<u>Payable Primary Government</u>	<u>Amount</u>
General Fund	Sheriff	\$ 33,860
General Fund	Capital Projects	75,778
General Fund	Debt Service	285,000
General Fund	Nonmajor Governmental Funds	2,569,066
General Fund	Internal Service	125,000
Sheriff	General Fund	6,316
Debt Service	General Fund	2,009,725
Debt Service	Nonmajor Governmental Funds	325,702
Capital Projects	General Fund	8,361
Capital Projects	Sheriff	137,577
Nonmajor Governmental Funds	General Fund	55,568
Nonmajor Governmental Funds	Capital Projects	16,458
Nonmajor Governmental Funds	Nonmajor Governmental Funds	3,713
Internal Service	General Fund	550,927
Internal Service	Sheriff	115,340
Internal Service	Nonmajor Governmental Funds	10,828
		<u>\$ 6,329,219</u>
<u>Receivable Primary Government</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Fund	Water & Wastewater Authority	\$ 89,391
General Fund	General Purpose School	302,706
General Fund	Centralized Cafeteria	14,743
General Fund	School Activity	11,051
		<u>\$ 417,891</u>
<u>Receivable Component Units</u>	<u>Payable Primary Government</u>	<u>Amount</u>
General Purpose School	General Fund	\$ 2,600,000
Education Capital Projects	General Fund	5,000
		<u>\$ 2,605,000</u>
<u>Receivable Component Units</u>	<u>Payable Component Units</u>	<u>Amount</u>
General Purpose School	Centralized Cafeteria	\$ 902,137
Education Capital Projects	General Purpose School	6,218
BOE Internal Service	General Purpose School	7,997,966
BOE Internal Service	Education Capital Projects	2,568
BOE Internal Service	Centralized Cafeteria	1,137,622
		<u>\$10,046,511</u>

#### NOTE O – INTERFUND TRANSFERS

Transfers within the County are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. Interfund transfers are transactions between funds transferring funds out of one fund to support the operations of another fund.

<u>Transfers in</u> <u>Primary Government</u>	<u>Transfers Out</u> <u>Primary Government</u>	<u>Amount</u>
General Fund	Sheriff	\$ 6,441
General Fund	Debt Service	285,000
General Fund	Nonmajor Governmental Funds	11,003,935
General Fund	Internal Service	125,000
Sheriff	General Fund	16,424,447
Debt Service	General Fund	26,195,470
Debt Service	Nonmajor Governmental Funds	324,313
Capital Projects	General Fund	27,828
Capital Projects	Nonmajor Governmental Funds	276,598
Nonmajor Funds	General Fund	<u>1,013,230</u>
		\$ <u>55,682,262</u>

#### NOTE P – JOINT VENTURE

The Carter Street Corporation is a nonprofit corporation that was organized by the City of Chattanooga, Tennessee, and Hamilton County, Tennessee. The Corporation serves as the coordinating body for the development, operation, and management of the Chattanooga/Hamilton County Convention and Trade Center and parking garage and is lessor of the adjoining hotel. Of the five-member board, two members are appointed by the County Mayor and two members are appointed by the Mayor of Chattanooga. The appointment of the fifth member, who serves as chairman, is agreed on by the County Mayor and the Mayor of Chattanooga.

The original construction of the Chattanooga/Hamilton County Convention and Trade Center and parking garage was financed by Lease Rental Revenue Bonds issued by the Industrial Development Board of Hamilton County, Tennessee, in 1985. On September 15, 1994, the Industrial Development Board of Hamilton County, Tennessee, issued \$15,835,000 of Least Rental Revenue Bonds to provide funds for the refunding of a portion of Series 1986 Lease Rental Revenue Bonds to provide funds to be advanced to the Corporation to pay the cost of certain engineering, architectural, and environmental services and to pay the cost of issuance of the Series 1994 Bonds. At June 30, 2005, the total bond indebtedness of the Corporation was \$2,087,552.

The facility is leased by the Carter Street Corporation to the City of Chattanooga, Tennessee, and Hamilton County, Tennessee. The basic rental payments are equal to the Corporation's total principal and interest payments on the bonds payable and are funded two-thirds by the City and one-third by the County. In addition, the City and County fund any projected operating loss of the Corporation as additional rental payments. While the bonds do not constitute an indebtedness of the County or the City, under the lease, the County and City are unconditionally obligated to make the rental payments. Such rent amounted to \$751,536 for the County during fiscal year 2005. Upon the repayment of the bonds, the City and the County will have an equity interest in the corporation.

Future minimum lease payments under the current lease agreements are as follows:

<u>Fiscal Year</u> <u>Ended</u> <u>June 30</u> <u>2006</u>	<u>City of Chattanooga</u> <u>Lease/Rental</u> <u>Payments</u>	<u>Hamilton County</u> <u>Lease/Rental</u> <u>Payments</u>	<u>Total</u> <u>Lease/Rental</u> <u>Payments</u>
	\$ 1,375,833	\$ 714,167	\$ 2,090,000

Complete financial statements may be obtained from: Carter Street Corporation, Chattanooga Hamilton County Convention & Trade Center, 1 Carter Plaza, Chattanooga, TN 37401.

Condensed financial information for the Carter Street Corporation as of June 30, 2005, is as follows:

#### **ASSETS**

Cash	\$ 653,350
Accounts receivable	2,182,260
Inventories	80,993
Prepaid expenses	27,753
Premises and equipment	12,714,317
Other assets	<u>76,714</u>
Total assets	\$ <u>15,735,387</u>

#### **LIABILITIES AND FUND EQUITY**

##### **LIABILITIES**

Accounts payable and accrued items	\$ 231,852
Accrued interest	40,058
Advance deposits	59,223
Bonds payable	<u>2,087,552</u>
Total liabilities	<u>2,418,685</u>

##### **NET ASSETS**

Invested in capital assets, Net of related debt	10,631,479
Unrestricted	<u>2,685,223</u>
Total net assets	<u>13,316,702</u>
Total liabilities and net assets	\$ <u>15,735,387</u>

#### Schedule of Revenues, Expenses and Changes in Fund Equity:

Total operating revenues	\$ 5,415,440
Total operating expenses	<u>6,674,880</u>
Loss from Operations	(1,259,440)
Non-operating revenues	2,506,367
Non-operating expenses	<u>147,833</u>
Net income	1,099,094
Fund equity at July 1, 2004	<u>12,217,608</u>
Fund equity at June 30, 2005	\$ <u>13,316,702</u>

## NOTE Q – RISK MANAGEMENT

Hamilton County has various exposures to loss as a result of its operations and service delivery, including liability, errors and omissions, on-the-job injuries, unemployment compensation and property damage (for various risk of loss associated with its property). The County maintains an Internal Service Fund to finance these various exposures to loss. Premiums are collected annually from participating departments and deposited in the Internal Service Fund, from which these claims are paid.

The County is self-funded for liability, on-the-job injuries, errors and omissions, unemployment compensation, the first \$25,000 per incident on property and boiler/machinery claims. The County has an excess liability policy with limits of \$1,000,000 per occurrence and a \$600,000 retention covering liability claims outside of the County's tort limits, and non-tort claims such as employment-related liability, medical malpractice, benefits and law enforcement liability. The County has a liability policy to cover election polling booth locations with a \$500 deductible and a \$2,000,000 aggregate limit. In addition, the County carries a \$1,000,000 excess auto liability policy for out-of-state travel. The County also has a jointly owned Pollution Legal Liability Policy with the City of Chattanooga, which covers specified acreage at the Enterprise South Industrial Park identified for development with limits of \$35,000,000 and a \$500,000 deductible with a term of up to 15 years, which commenced on January 8, 2003. There were no significant reductions in insurance coverage from the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

Hamilton County Department of Education, a component unit, maintains a separate Internal Service Fund for providing risk management services, which include handling property claims, auto and general liability claims, and injuries to employees. All risk is retained for auto and general liability claims, injuries to employees, the first \$1,000 per incident on boiler/machinery claims, and the first \$10,000 per incident on property claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated and periodically reevaluated, taking into consideration the effect of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. Changes in the balances of claims liabilities during the year are as follows:

	Total Primary <u>Government</u>	Total <u>Component Units</u>
Unpaid claims, June 30, 2003	\$ 847,725	\$ 5,554,801
Incurred claims	1,392,802	24,716,461
Claims payments	<u>(995,110)</u>	<u>(25,540,620)</u>
Unpaid claims, June 30, 2004	1,245,417	4,730,642
Incurred claims	121,501	24,079,969
Claims payments	<u>(725,245)</u>	<u>(22,108,903)</u>
Unpaid claims, June 30, 2005	<u>\$ 641,673</u>	<u>\$ 6,701,708</u>

At June 30, 2005, the Hamilton County Internal Service Fund has net assets of \$19,374,194, and the Board of Education Internal Service Fund has net assets of \$7,025,496. These net assets balances are designated for future catastrophic losses.